City and County of San Francisco
Meeting Minutes
Finance and Audits Committee

Members: Aaron Peskin, Gerardo Sandoval and Jake McGoldrick

Clerk: Linda Laws

Wednesday, November 05, 2003 **12:30 PM** **City Hall, Room 263**

Regular Meeting

Members Present: Aaron Peskin, Gerardo Sandoval, Jake McGoldrick.

MEETING CONVENED

The meeting convened at 12:37 p.m.

REGULAR AGENDA

031657 **[Appropriation of funding and creation of special fund for the Octavia Boulevard Project]**

Supervisor Peskin

Ordinance appropriating $12,903,999 from the land sales to the San Francisco Redevelopment Agency and $1,106,631 in lease revenues from the Central Freeway land parcels for a total of $14,010,630 to fund the construction of Octavia Boulevard and related ancillary projects for the Department of Public Works for fiscal year 2003-04. (Mayor)

(Fiscal impact; No Public Benefit Recipient.)

9/30/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

10/29/03, AMENDED, AN AMENDMENT OF THE WHOLE BEARING SAME TITLE. Heard in Committee. Speakers: Tina Olson, Public Works; Ramon Cohen, Manager, Octavia Boulevard Project; Ed Harrington, Controller; Harvey Rose, Budget Analyst

10/29/03 - Amendment of the whole bearing the same title.

10/29/03, CONTINUED. Continued to November 5, 2003.

Speakers: None.

RECOMMENDED by the following vote:

Ayes: 3 - Peskin, Sandoval, McGoldrick

031643 **[License Agreement with Broadcast Music Incorporated]**

Ordinance authorizing the City Administrator to enter into the Local Government Licensing Agreement negotiated between the International Municipal Lawyer's Association and Broadcast Music Incorporated to license music uses by the City under a license subject to automatic annual renewal for an annual Base License Fee plus 1% of revenue from events in which gross revenue exceeds $25,000. (City Administrator)

(No Public Benefit Recipient.)

9/29/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

10/22/03, CONTINUED. Heard in Committee. Speakers: William Lee, City Administrator; Ted Lakey and Sara Ellen Owsowitz, Deputy City Attorneys.
Continued to 10/29/03.

10/29/03, CONTINUED. Heard in Committee Speaker: Bill Lee, City Administrator; Sarah Owsowitz, Deputy City Attorney; Ed Harrington, Controller.

Continued to November 5, 2003.

Heard in Committee. Speaker: William Lee, City Administrator.
Continued to 11/19/03.

AMENDED, AN AMENDMENT OF THE WHOLE BEARING NEW TITLE.

Ordinance authorizing the City Administrator to enter into the Local Government Licensing Agreement negotiated between the International Municipal Lawyer's Association and Broadcast Music Incorporated to license music uses by the City under a license subject to automatic annual renewal for an annual Base License Fee plus 1% of revenue from events in which gross revenue exceeds $25,000, providing that prior to the issuance by any City Department of agency of any lease or permit to conduct an event on property owned or operated by the City and County of San Francisco at which music will be used, the leasee or permittee shall obtain an appropriate license from Broadcast Music Incorporated for the use of music at the event, and requiring that if an appropriate license for the use of music at the event is not obtained by the leasee or permittee, the City department or agency issuing the lease or permit shall provide funds to the City Admninistrator sufficient to cover any fees incurred pursuant to the City's Local Government Licensing Agreement with Broadcast Music Incorporated. (City Administrator)

(No Public Benefit Recipient.)

CONTINUED AS AMENDED by the following vote:

Ayes: 3 - Peskin, Sandoval, McGoldrick

031696 **[Lease of Property]**

Resolution authorizing a 25-year Lease of San Francisco Public Utilities Land between the City and County of San Francisco and Sunol Valley Golf & Recreation Co., in Alameda County. (Public Utilities Commission)

(Public Benefit Recipient.)

10/1/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

10/29/03, CONTINUED. Heard in Committee. Speakers: none.

Continued to November 5, 2003.

Heard in Committee. Speakers: Garrett Dowd, SFPUC; Josh Milstein and Hazel Brandt, Deputy City Attorneys; Ken Bruce, Budget Analyst's Office; Harvey Rose, Budget Analyst; David Dornbusch, Dornbusch & Associates; Brian Richardson, Sunol Valley Golf & Recreation Company; Howard Strassner.
Continued to 11/19/03.

CONTINUED by the following vote:

Ayes: 3 - Peskin, Sandoval, McGoldrick

031738 **[Contracting out Budget Analyst Services]**

Resolution concurring with the controller's certification that the budget analyst services can be practically performed by private contractor for lower cost than similar work services performed by city and county employees. (Clerk of the Board)

10/21/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

Heard in Committee. Speaker: Monique Zmuda, Controller's Office.

RECOMMENDED by the following vote:

Ayes: 3 - Peskin, Sandoval, McGoldrick

031319 **[Approving ground lease to Music Concourse Community Partnership in connection with the construction and operation of an underground parking facility and amending the designation of the jurisdiction of the Golden Gate Park Concourse Authority]**

Supervisors Peskin, Dufty

Resolution approving and authorizing the execution and delivery of a ground lease between the City and Music Concourse Community Partnership relating to the Golden Gate Park Music Concourse underground parking facility project; amending the designation of the jurisdiction of the Golden Gate Park Concourse Authority; and requiring Music Concourse Community Partnership to provide or cause the provision of a guarantee of the remaining uncollected pledges.

(Fiscal impact.)

7/29/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

10/28/03, SUBSTITUTED. Supervisor Peskin submitted a substitute resolution bearing new title.

10/28/03, ASSIGNED to Finance and Audits Committee.

Heard in Committee. Speakers: Harvey Rose, Budget Analyst; Monique Zmuda, Controller's Office; Michael Ellzey, Golden Gate Park Concourse Authority; Michael Cohen, Deputy City Attorney; Elizabeth Goldstein, Recreation and Park Department; Greg Halley, MCCB; Monique Moyer, Mayor's Office; Stephen Willis; Christopher Duderstadt; John Laskin; Howard Strassner; Ron Miguel, PAR; Mary Anne Miller, SF Tomorrow. 11/5/03 Supervisor Peskin presented an Amendment of the Whole bearing same title.

AMENDED, AN AMENDMENT OF THE WHOLE BEARING SAME TITLE.

RECOMMENDED AS AMENDED by the following vote:

Ayes: 2 - Peskin, Sandoval
Absent: 1 - McGoldrick

031320 **[Golden Gate Park Concourse Underground Parking Facility Fees]**

Supervisor Peskin

Ordinance making environmental findings and amending the San Francisco Park Code by adding Section 12.35 to establish rates for the Golden Gate Park Concourse Underground Parking Facility.

7/29/03, RECEIVED AND ASSIGNED to Finance and Audits Committee

8/8/03, REFERRED TO DEPARTMENT. Referred to Planning Department for environmental review

8/14/03, RESPONSE RECEIVED. Statutorily exempt from CEQA pursuant to CEQA Guidelines Section 15273(a), Rates, Tolls, Fares and Charges

Heard in Committee. Speakers: Harvey Rose, Budget Analyst; Monique Zmuda, Controller's Office; Michael Ellzey, Golden Gate Park Concourse Authority; Michael Cohen, Deputy City Attorney, Elizabeth Goldstein, Recreation and Park Department; Greg Halley, MCCB; Monique Moyer, Mayor's Office; Stephen Willis, Christopher Duderstadt; John Laskin; Howard Strassner; Ron Miguel, PAR; Mary Anne Miller, SF Tomorrow 11/5/03 Supervisor Peskin presented an Amendment of the Whole bearing same title.

AMENDED, AN AMENDMENT OF THE WHOLE BEARING SAME TITLE.

RECOMMENDED AS AMENDED by the following vote:
Ayes: 2 - Peskin, Sandoval
Absent: 1 - McGoldrick

031321 **[CEQA, General Plan, Golden Gate Park Master Plan Findings - Golden Gate Park Concourse Authority Projects]**

Supervisor Peskin

Resolution affirming the Planning Commission's certification of the Golden Gate Park Concourse Authority Projects Final Environmental Impact; adopting environmental findings pursuant to the California Environmental Quality Act, State Guidelines, and Administrative Code Chapter 31; and adopting General Plan and Planning Code Section 101.1 findings in connection with the Golden Gate Park Concourse Authority Projects.

7/29/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

Heard in Committee. Speakers: Harvey Rose, Budget Analyst; Monique Zmuda, Controller's Office; Michael Ellzey, Golden Gate Park Concourse Authority; Michael Cohen, Deputy City Attorney; Elizabeth Goldstein, Recreation and Park Department; Greg Halley, MCCB; Monique Moyer, Mayor's Office; Stephen Willis; Christopher Duderstadt; John Laskin; Howard Strassner; Ron Miguel, PAR; Mary Anne Miller, SF Tomorrow. 11/5/03 Supervisor Peskin presented an Amendment of the Whole bearing new title.

AMENDED, AN AMENDMENT OF THE WHOLE BEARING NEW TITLE.

Resolution adopting environmental findings pursuant to the California Environmental Quality Act, State Guidelines, and Administrative Code Chapter 31; and adopting General Plan and Planning Code Section 101.1 findings in connection with the Golden Gate Park Concourse Authority Projects.

RECOMMENDED AS AMENDED by the following vote:
Ayes: 2 - Peskin, Sandoval
Absent: 1 - McGoldrick

ADJOURNMENT

The meeting adjourned at 4:03 p.m.

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET ANALYST

1390 Market Street, Suite 1025, San Francisco, CA 94102 (415) 554-7642
FAX (415) 252-0461

October 30, 2003

TO: Finance and Audits Committee

FROM: Budget Analyst

SUBJECT: November 5, 2003 Finance and Audits Committee Meeting

Item 1 - File 03-1657

Note: This item was continued by the Finance and Audits Committee at its meeting of October 29, 2003.

Department: Department of Public Works (DPW)
San Francisco Redevelopment Agency (SFRA)
San Francisco County Transportation Authority (TA)

Item: Ordinance appropriating $14,010,630 to the Department of Public Works (DPW) to fund the construction of Octavia Boulevard and related ancillary projects for the Central Freeway Replacement Project (the Project) and creating a Octavia Boulevard Special Fund.

Amount: $14,010,630

Source of Funds:

Sales proceeds from the SFRA for the sale of City-owned Central Freeway land parcels	$12,903,999
Lease revenues from the City-owned Central Freeway land parcels	1,106,631
Total	$14,010,630

Octavia Boulevard Special Fund: The proposed ordinance would create the Octavia Boulevard Special Fund. All revenues from the sale and lease of City-owned Central Freeway parcels, and any other revenues, such as grants or gifts, received by the City for the Central Freeway Replacement Project would be deposited to this Fund, and all expenditures from the Fund would be subject to appropriation approval by the Board of Supervisors. The proposed ordinance specifies that the Octavia Boulevard Special Fund would be used solely for the Central Freeway Replacement Project

Project Description: The Central Freeway Replacement Project (the Project) involves replacing the Central Freeway, Route 101, which was damaged in the 1989 Loma Prieta earthquake, with a ground-level boulevard along Octavia Street and a new four-lane roadway between Mission and Market Streets. According to Ms. Amy Brown of the City Attorney's Office, in 1999, the State Legislature adopted a statute that authorized the transfer of title from the State to the City of the parcels of land between Market Street and Turk Street which were formerly used for the Central Freeway, Route 101.

Attachment I, provided by Ms. Tina Olson of the DPW, contains a list and description of the parcels, including the parcel locations, the date such parcels were transferred from the State (Caltrans) to the City and the sale and lease proceeds from these parcels to date. Ms. Brown advises that the City is authorized to use the proceeds from the sale and lease of these parcels for the Project in accordance with Senate Bill 798, codified in California Streets and Highway Code Section 72.1, and in Article XIX of the California Constitution. Ms Brown advises that SB 798 requires that the City use all proceeds from the sale or lease of these parcels to design, construct, develop, and maintain the Project until the City's share of the costs of the Project are paid in full or funded from other sources.

As shown in Attachment I, the revenues realized to date from the sales of such parcels totals $7,534,875 and revenues realized from the lease of such parcels totals

$58,406. The requested $14,010,630 from the sale and lease of City-owned Central Freeway parcels has been certified by the Controller and is projected to be realized by the City between November 2003 and May 2005.

The Project Construction Budget and Related Costs are as follows:

Sources of Funds

Previously Appropriated Fund	$3,137,326
Proposed Supplemental Appropriation	14,010,630
Loan from the San Francisco Transportation Authority	2,049,537
Total	$ 19,197,493

Uses of Funds

Octavia Blvd Construction Contract	$11,365,550
10% Contingency	1,136,555
Project Management – DPW	351,799
Project Management – TA	101,510
Land Sales Management – MOED, City Attorney's Office, and Real Estate Division	276,741
Traffic Management Plan – DPT and DPW	1,893,736
Public Art – Arts Commission	212,311
Archaeology Consultant – competitive award in August 2003	1,200,000
Construction Management – to be awarded in November 2003	1,599,792
Design Support – DPW	423,593
TA Costs through October 1, 2003	635,906
Total	$19,197,493

The total estimated project costs, including construction, design and other related costs, is $44,794,000, according to Ms. Olson.

Comments:

1. Attachment II to this report, provided by Ms. Olson, shows a breakdown of the estimated projected construction costs and related expenses described above, including hours and hourly rates of the consultants.

2. Ms. Olson states that DPW issued a request for competitive bids for the construction contract for the Project on September 18, 2003 and intends to award the construction contract in November of 2003. Ms. Olson reports that construction is anticipated to be completed by May of 2005. Ms. Olson advises that the majority of land parcels owned by the City will not be sold until the Project is completed in May of 2005 because the construction of the Project itself will increase the sales value of the parcels significantly.

3. Attachment III identifies land sales of $14,031,500, of which $12,903,999 would be appropriated under the subject ordinance and Attachment IV identifies the lease revenues of $1,106,631 to be appropriated under the subject ordinance. The $12,903,999 in land sales and the $1,106,631 in lease revenues totals the subject request of $14,010,630. The Budget Analyst notes that 10 of the 11 leases are in a month-to-month basis.

Attachment V to this report, provided by Ms. Olson explains that a loan of up to $8,000,000 from the San Francisco Transportation Authority would be utilized if some of the projected land sales and lease revenues were not realized.

4. According to Mr. Todd Rydstrom of the Controller's Office, the Controller has certified the requested land sale proceeds from the SFRA and the lease revenues, totalling $14,010,630.

Recommendation: Approve of the proposed ordinance.

Attachment I
Page 1 of 2

Parcel Name	Location	Area (Sq Ft)	Monthly Rent	Lessee	Appraised Value	Sale Value	Estimated Value	When Sold	To Whom	Notes
A	SE corner Turk & Gough	16,500	$1,500	SFRA	2,887,500	2,887,500	2,887,500	3/22/02	SFRA's 02/03 budget	
A1	St between Franklin & Gough Sts	1,810			162,500	270,000	270,000	5/10/02	Lynch	
B	Mid-Block N. Golden Gate between Franklin & Gough Sts	12,642	4,200	Car Park Mgmt Corp	-	-	-			This parcel will be exchanged for DOF 1-4 NoValue ($1,770,000)
B1	Mid-Block So. Elm St. between Franklin & Gough	1,160					156,600		SF Federal Credit Unic	PW assumed $135/sf
C	SW corner of Golden gate Ave & Franklin St.	16,500	10,799	Federal Auto Parts	2,890,000	2,887,500	2,887,500	3/22/02	SFRA 02/03	Cash to be transferred upon need
D	Mid-block N. McAllister St between Franklin & Gough Sts with frontage on Franklin St	10,937			1,170,000	1,100,000	1,100,000	Apr-03	Giannini	Buyer had a long term lease, which reduced the parcel value
E	Mid-block S. McAllister St between Franklin & Gough Sts with frontage on Franklin St	28,394	4,997	SFUSD			-			The SFUSD has a long term lease which makes this parcel unsalable
F/DOF 3-4	Fulton & Gough Sts	27,289	7,750	SF Opera			4,100,000			
G/ DOF 1	Fulton & Gough St	19,242	5,400	SF Opera			2,886,300		SFRA's 02/03 budget	
H	NW corner of Grove & Gough Sts	NA	5,000	Tower Valet Parking		200,000	200,000	1/22/03	Brown	adjacent Prop. Owner to create two new parcels rotated to give better main street frontage. Brown paid $200,000 for increased street frontage
H(Prime)	Grove & Gough Sts	11,269			1,600,000		1,600,000			
I/DOF 2	Grove & Gough Sts with frontage on Ivy	22,398	5,600	Parking (DBI)			3,140,000			
J	Hayes St between Franklin & Gough Sts with frontage on Ivy	17,398	6,400	SF Symphony	2,440,000		2,440,000			
K	Hayes and Octavia St with frontage on Linden	11,430					1,543,000		SFRA's 02/03 budget	
K1	S. Hayes St 120.25 ft east of Octavia	59			7,375	7,375	7,375	1/29/02	Goldstein	

Parcel Name	Location	Area (Sq Ft)	Monthly Rent	Lessee	Appraised Value	Sale Value	Estimated Value	When Sold	To Whom	Notes
K2	ft east of Octavia St	980	2,880	Parking - (DBI)	182,500	182,500	182,500	6/30/03	Colvin	
L	E. Octavia St with frontages on Fell & Linden Sts	4,579					687,000			
M	E. Octavia St with frontages on Fell & Hickory Sts	1,830					-			15' wide parcel, assume no value
N	frontages on Hickory & Oak Sts	1,830					-			15' wide parcel, assume no value
O	block with frontages on Fell, Laguna & Hickory Sts	37,427					5,053,000		SFRA's 04/05 budget	
P	Entire block bounded by Laguna/Octavia & Hickory/Fell Sts	49,500	3,880	French-American School			6,683,000			
Q	SW corner of Oak & Octavia	4,650					628,000		SFRA's 04/05 budget	
R	E. Octavia St. with frontages on Oak & Lily Sts	2,790					377,000			
S	E. Octavia St. with frontages on Lily and Page Sts	2,970					401,000			
T	E. Octavia St. with frontages on Page and Rose Sts	5,502					743,000			
U	E. Octavia St. with frontages on Rose and Haight Sts	5,502					743,000		SFRA's 04/05 budget	
V	frontages on Haight & Market Sts	12,244					1,653,000			

Total Monthly Rent 58,406

Sales to Date 7,534,875

Total Estimated Land Values	40,368,775
Total SFRA	16,628,300
Total SFRA cash Received	2,887,500
Balance Due When Required	13,740,800
Total Non-SFRA Land Sales	1,916,475

Attachment I
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SUPPLEMENTAL APPROPRIATION BUDGET SUMMARY
Bureau of Engineering Estimated Labor Budget

Octavia Blvd. Improvement Project - Construction Phase

PROJECT MANAGEMENT

DPW-BOE Project Management

Title		Class. No.	Hrly Rate	Hrs	Totals
Project Manager II		5504	$ 132	1650	$ 217,528
Associate Civil Engineer		5207	$ 106	1080	$ 114,876
Secretary		1446	$ 65	300	$ 19,395
	TOTAL			3,030	$ 351,799

SFCTA Administration

Title		Class. No.	Hrly Rate	Hrs	Totals
Manager of Capital Projects					$ 101,510
	TOTAL				$ 101,510

LAND MANAGEMENT

Land Management

Title		Class. No.	Hrly Rate	Hrs	Totals
MOED					$ 39,241
Department of Real Estate					$ 112,500
City Attorney's Office					$ 125,000
	TOTAL				$ 276,741

TRAFFIC MANAGEMENT PLAN

Traffic Management Plan

Title		Class. No.	Hrly Rate	Hrs	Totals
DPW - Public Affairs Officer		1314	$ 87	630	$ 55,000
PCOs					$ 1,427,001
DPT Prep.: Design Review Plans					$ 20,455
Public Information Program (Systan Consultant)					$ 275,000
Operational Changes					$ 63,333
DPT Design & Construction Support					$ 40,672
DPT Measures during construction					$ 12,275
	TOTAL			630	$ 1,893,736

CONSTRUCTION CONTRACT

Construction Contract

Title		Class. No.	Hrly Rate	Hrs	Totals
Construction Contract					$ 11,365,550
10% Contingency					$ 1,136,555
	TOTAL				$ 12,502,105

PUBLIC ART

Public Art

Title		Class. No.	Hrly Rate	Hrs	Totals
Arts Commission					$ 212,311
	TOTAL				$ 212,311

ARCHAEOLOGY

Archaeology

Title		Class. No.	Hrly Rate	Hrs	Totals
Consultant - Fulgro West					$ 1,200,000
	TOTAL				$ 1,200,000

SUPPLEMENTAL APPROPRIATION BUDGET SUMMARY
Bureau of Engineering Estimated Labor Budget

CONSTRUCTION MANAGEMENT

Construction Management & Inspection

Title	Class. No.	Hrly Rate	Hrs	Totals
Full Engineer	5241	$ 121	3375	$ 407,320
Associate Engineer	5207	$ 104	3375	$ 351,949
Construction Inspector	6318	$ 93	3375	$ 314,613
Senior Engineer	5211	$ 140	1037	$ 144,909
TOTAL			11,162	$ 1,218,792

Site Assesment Remediation

Title	Class. No.	Hrly Rate	Hrs	Totals
Engineer	5241	$ 121	1168	$ 141,000
TOTAL			1,168	$ 141,000

Materials Testing Lab

Title	Class. No.	Hrly Rate	Hrs	Totals
Materials Testing Tech.	5305	$ 68	2199	$ 150,000
TOTAL			2,199	$ 150,000

Prevailing Wage Monitoring

Title	Class. No.	Hrly Rate	Hrs	Totals
Mgr. Regulatory Affair	9398	$ 121	413	$ 50,000
TOTAL			413	$ 50,000

Survey

Title	Class. No.	Hrly Rate	Hrs	Totals
Survey Associate	5314	$ 90	446	$ 40,000
TOTAL			446	$ 40,000

DESIGN SUPPORT DURING CONSTRUCTION

DPW - Streets and Highways

Title	Class. No.	Hrly Rate	Hrs	Totals
Engineer	5241	$ 121	1064	$ 128,400
TOTAL			1,064	$ 128,400

DPW - Landscape Architecture

Title	Class. No.	Hrly Rate	Hrs	Totals
Landscape Architect	5274	$ 121	718	$ 86,650
TOTAL			718	$ 86,650

DPW - Electrical

Title	Class. No.	Hrly Rate	Hrs	Totals
Associate Engineer	5207	$ 104	269	$ 28,000
TOTAL			269	$ 28,000

DPW - Hydraulics

Title	Class. No.	Hrly Rate	Hrs	Totals
Associate Engineer	5207	$ 104	319	$ 33,315
TOTAL			319	$ 33,315

Department of Parking and Traffic

Title	Class. No.	Hrly Rate	Hrs	Totals
Associate Engineer	5207	$ 104	1078	$ 112,428
TOTAL			1,078	$ 112,428

SUPPLEMENTAL APPROPRIATION BUDGET SUMMARY
Bureau of Engineering Estimated Labor Budget

SF Water Department

Title	Class. No.	Hrly Rate	Hrs	Totals
Associate Engineer	5207	$ 104	257	$ 26,800
TOTAL			257	$ 26,800

Muni

Title	Class. No.	Hrly Rate	Hrs	Totals
Associate Engineer	5207	$ 104	77	$ 8,000
TOTAL			77	$ 8,000

TA Costs through October 1, 2003	$ 635,906
Grand Total	$ 19,197,493

Summary of Octavia Blvd Land Sale Revenue Assumptions for Supplemental Appropriation

SFRA Purchase of Parcel C (funds in SFRA's FY 02-03 budget)	$2,887,500
SFRA Purchase of Parcel G/DOF1 (funds in SFRA's FY 02-03 budget)	2,890,000
SFRA Purchase of Parcel K (funds in SFRA's FY 02-03 budget)	1,830,000
SFRA Purchase of Parcel O (FY 04-05)*	5,053,000
SFRA Purchase of Parcel Q (FY 04-05)*	628,000
SFRA Purchase of Parcel U (FY 04-05)*	743,000
Total Estimated Land Sale Revenues	$14,031,500
Less Amount Included in Existing Appropriations	$1,127,501
Net to be Appropriated - Supplemental Appropriation	**$12,903,999**

* Old estimates but latest appraisals in the area have been greater than the old appraisals.

Attachment IV

Summary of Monthly Lease Revenues from Octavia Blvd

Parcel	Lease	Date Lease Began	Lease Term	Monthly Rent	Projected thru 30-May-05	Notes
A	SFRA		Mo-Mo	1,500	22,500	Lease Revenues will end January 2005 (15 mos of revs)
B	Car Park Management Copr		Mo-Mo	4,200	84,000	20 months of revs
C	Federal Auto Parks		Mo-Mo	10,799	161,985	Lease Revenues will end January 2005 (15 mos of revs)
E	SFUSD		50 yrs	4,997	99,946	20 months of revs
F	SF Opera		Mo-Mo	7,750	155,000	20 months of revs
G	SF Opera		Mo-Mo	5,400	108,000	20 months of revs
H	Tower Valet Parking Inc		Mo-Mo	5,000	100,000	20 months of revs
I	Parking City-owned (DBI)	Commenced 6/09/03	Mo-Mo	5,600	112,000	20 months of revs
J	SF Symphony		Mo-Mo	6,400	128,000	20 months of revs
K	Parking City-owned (DBI)	Commenced 6/09/03	Mo-Mo	2,880	57,600	20 months of revs
P	French-American Intl School		Mo-Mo	3,880	77,600	20 months of revs
			Totals	58,406	1,106,631	
		Average Monthly thru May 30, 2005			55,332	

(Attachment D)

City and County of San Francisco

Willie Lewis Brown, Jr., Mayor
Edwin M. Lee, Director

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Department of Public Works
Finance and Budget Division
City Hall, Room 340
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4645
Tina Olson, Division Manager

MEMORANDUM

Date: October 20, 2003

To: Elaine Forbes, Budget Analyst's Office

From: Tina Olson, DPW

Subject: Octavia Blvd Supplemental Appropriation – Lease Revenues and DPW's Plan to Cover Possible Revenue Shortfalls

As requested, the following is a summary of our lease revenue assumptions for the Octavia Blvd supplemental appropriation. In addition, this memo explains how DPW will cover project costs in the event we don't realize lease or land sale revenues in a timely manner.

As described in the attached spreadsheet, we estimate to receive $1,106,631 in lease revenues from 11 parcels for which there are currently leases. The total monthly rent from these leases is $58,406. We assume 20 months lease revenue from nine of these 11 parcels or from October 1, 2003 through May 30, 2005 when the project will be complete. For the remaining two parcels, the leases will discontinue the end of January 2005 because the Redevelopment Agency will begin construction on those parcels. Thus, we assumed 15 months of lease revenues for these two parcels.

While we project to require a $2 million loan from the Transportation Authority to fully fund this project, we discussed with the TA staff borrowing up to $8 million or $6 million more to cover project costs in case we don't fully realize lease revenues or the SFRA is unable to purchase parcels in FY 2004-05. Thus, if we don't realize all of the projected revenues, we would draw down the loan beyond the $2 million. We will repay this loan with future SFRA land sales, lease revenues and/or sales to non-SFRA entities.

Item 3 - File 03-1696

Department: Public Utilities Commission (PUC)
Water Department (WTR)

Item: Resolution authorizing a new 25-year lease of City-owned land in Alameda County under the jurisdiction of the Public Utilities Commission, between the City and County of San Francisco through its Public Utilities Commission and the Sunol Valley Golf and Recreation Company for purposes of continuing to operate the Sunol Valley Golf Course which includes two golf courses and privately-owned related facilities.

Lessor: City and County of San Francisco acting by and through the Public Utilities Commission (PUC)

Lessee: Sunol Valley Golf and Recreation Company (Sunol Valley) (owners include Ronald F. Ivaldi, Marjorie L. Russell, Lisa M. Granzella, Bryan E. Richardson, and the Ivaldi Family Trusts)

Location and Acreage: Portion of Parcels 61 and 65 in Alameda County at 6900 Mission Road in Sunol, California, consisting of approximately 280 acres of land and related facilities, including two eighteen hole golf courses, a two story building housing, a pro shop and administrative offices, and a clubhouse. All of the facilities are owned by Sunol Valley, the lessee.

Term of Proposed Lease: The proposed new lease would be effective on November 1, 2003 and expire October 31, 2028 or a period of 25 years. Since August 31, 2001 the proposed lessee has been operating the Sunol Valley Golf Course under a month-to-month holdover basis as provided for in the original lease which was previously awarded to Sunol Valley by the PUC.

Provisions Included in Original Lease: The original lease in 1965 to operate the Sunol Valley Golf Course was awarded by the PUC to the Sunol Valley Golf Course and Recreation Company under a competitive bid process. That lease began September 1, 1965 and terminated on August 31, 2001. Since the termination of

that agreement on August 31, 2001, the PUC has authorized the same lessee, Sunol Valley, to operate the Sunol Valley Golf Course under a month-to-month holdover provision contained in the original lease. Under the original lease and under the month-to-month holdover provision, the rent payable by Sunol Valley to the PUC continues to be the greater of either the Minimum Rent or the Percentage Rent as follows:

Minimum Annual Rent
$12,000 (at $1,000 per month)

Percentage Rent:
For each month, percentage rent shall equal the sum of a) 10 percent of Admissions gross revenues, plus, b) 5 percent of Equipment Rentals gross revenues, plus, c) 8.25 percent of Concessions gross revenues, calculated and payable on a monthly basis.

Rent Paid by Sunol Valley to the PUC Under Original Lease:

According to Mr. Gary Dowd of the PUC, Sunol Valley has paid Percentage Rent, because the percentage rent has been greater than the Minimum Rent, since at least 1993 (historical data prior to 1993 is not available). As shown in Attachment V, which includes a 10-year history of actual rent payments made by Sunol Valley to the PUC, Sunol Valley, has paid the PUC an average of $41,705 per month as percentage rent.

Rent to be paid by Sunol Valley to the PUC Under the Proposed New Lease:

Under the proposed new lease, Sunol Valley is required to pay the PUC the greater of either the Minimum Rent or Percentage Rent in accordance with the following:

Minimum Annual Rent
For the first five Lease Years:
$250,000 ($20,833 per month)

For the sixth through tenth Lease Year:
$500,000 ($41,667 per month)

For the eleventh and each Lease Year thereafter:
The Minimum Rent of $500,000 noted above is to be adjusted annually by the percentage change in the Consumer Price Index (CPI) for the San Francisco, Oakland, San Jose metropolitan area for Lease Years 11 through 25 ($41,667 per month adjusted by the CPI).

Percentage Rent
For the first five lease years, percentage rent shall equal the sum of a) 5 percent of Admissions gross revenues, plus, b) 2.5 percent of Equipment Rentals gross revenues, plus, c) 4.125 percent of Concessions gross revenues, calculated and payable on a monthly basis. For the sixth through twenty-fifth lease years, percentage rent shall equal the sum of a) 10 percent of Admissions gross revenues, plus, b) 5 percent of Equipment Rentals gross revenues, plus, c) 8.25 percent of Concessions gross revenues, calculated and payable on a monthly basis. Therefore, the percentage rent under the proposed lease would be reduced by 50 percent from the percentage rent required under the existing lease for Lease Years 1 through 5, and then for years 6 through 25 of the proposed lease, the Percentage Rent would return to the same rates as are being paid under the existing lease.

Therefore, the percentage rates contained in the proposed lease are less for the first five years and are the same percentage rates for the last 20 years as are contained in the existing lease which was awarded approximately 38 years ago in 1965. According to Mr. Dowd, the proposed lease does not provide for any rate increases in the percentage of gross revenues from the existing lease because considering the $2,096,998 in required capital improvements and an additional $10,836,202 (see below) in capital improvements needed, there wasn't room for a rent increase. However, the Budget Analyst noted that the proposed lease did not contain specific provisions to require the lessee, Sunol Valley, to expend an additional $10,836,202 for capital improvements. Subsequent to the submission of Budget Analyst's draft report to the PUC, Mr. Dowd has since added language to the proposed lease to designate not less than $10.8 million in capital improvements to be expended by Sunol Valley over the 25 year lease, in addition to the $2,096,998 noted above. However, such language has not been approved by the

PUC and the proposed resolution does not yet reflect the language added by Mr. Dowd. According to Mr. Dowd, the percentage rent is being reduced for the first five years to offset a majority of the $2,096,998 in required capital improvements at the Sunol Valley Golf Course to be made by Sunol Valley. In fact, the Budget Analyst has calculated that this proposed reduction in percentage rent would result in the PUC paying for 67.2 percent of such capital improvements (see Comment No. 5).

Utilities and Janitorial Service: Provided by the Lessee.

Additional Lessee Financial Obligations: The proposed lease requires the lessee to pay for the following Capital Improvements to the Sunol Valley Golf Course to be completed within two years after the lease Commencement Date of November 1, 2003, in an amount of not less than $2,096,098 as follows:

Required Work	Estimated Costs
Irrigation Supply New Pipe Line	$138,600
Pond 3 Improvements	735,561
Pond 4, 5 Improvements	511,100
Maintenance Building Relocation	574,550
Contingency	137,187
Total Estimated Costs:	$2,096,998

According to Mr. Dowd, the scope of the capital improvements and the total estimated capital improvement costs of $2,096,998 for such improvements were determined by a consultant, Tanner Consulting, a firm retained by Sunol Valley at the lessee's expense. An itemized budget and description of the required work is shown in Attachment I, provided by the PUC. The Budget Analyst questioned why the PUC did not determine the capital improvement needs and their related costs using a consultant selected by the PUC instead of permitting the lessee, Sunol Valley to have their own consultant make such determinations. In response, Mr. Dowd stated:

> "The lessee worked very closely with PUC staff and the City Attorney's Office to direct Tanner Consulting as to the appropriate Project Scope of Work. Under the proposed lease agreement the

lessee is responsible for completing all required work, regardless of cost. Any portion of the $2,096,998 not spent on required work must be deposited into the Capital Improvement Fund so the City will in fact receive the full $2,096,998 benefit regardless of actual costs."

According to the proposed lease, these capital improvements must be completed by November 1, 2005. Additionally, Sunol Valley must establish and maintain a separate, interest-bearing Capital Improvement Fund Account. Sunol Valley must deposit by the twentieth day of each month an amount equal to two percent of the Gross Revenues from the preceding month in Lease Years 1 through 25. Mr. Dowd advises that this 2 percent contribution is taken from total gross revenues and the Fund proceeds are required to be expended for Capital Improvement projects, in addition to the $2,096,998 described above, over the course of the Lease term with the PUC General Manager's approval. As shown in Attachment II provided by Mr. Dowd, these additional capital improvements are estimated to cost $10,836,202.

Interest earned on the Fund balance shall become part of the Capital Improvement Fund and shall be used exclusively for construction, repair, and replacement of capital items.

All maintenance of the golf course and facilities will be the responsibility of lessee. The proposed lease contains detailed maintenance standards that must be met by the lessee.

During the term of the proposed lease, the lessee must maintain a security deposit equal to $250,000, an increase of $200,000 from the current security deposit of $50,000 under the existing month to month lease.

Description: On March 8, 1965, the PUC advertised for bids to construct and operate the Sunol Valley Golf Course on 280 acres of PUC-owned land located south of Sunol Water Temple in Sunol, California, in Alameda County. On June 20, 1965 the PUC awarded a 22-year Lease beginning September 1, 1965 between the PUC and Sunol

Valley Golf and Recreation Company, the same lessee as is being proposed for the new subject lease. On March 19, 1968, the PUC approved the First Amendment to the Lease which extended the completion date for operating the Sunol Valley Golf Course for an additional 18 months. According to Mr. Dowd, two golf courses were constructed and paid for by Sunol Valley Golf and Recreation Company. On April 1, 1969, the PUC approved the Second Amendment to the Lease which provided for a 14-year extension to the 22-year lease with Sunol Valley, creating a 36-year lease commencing September 1, 1965 and ending August 31, 2001 with an option for an additional 6 years, terminating August 31, 2007. On May 23, 1989 the PUC approved the Third Amendment to the Lease giving Sunol Valley the option to provide the City with a cash security deposit or a letter of credit in lieu of a performance bond and also provided for payment to the City of 5 percent of gross revenues for rental of all golf carts as additional percentage rent.

Since August 31, 2001, Sunol Valley Golf Course has been operated by Sunol Valley on a month-to-month basis with the PUC. As noted above, upon termination of the lease in 2001, Sunol Valley had the option to extend for an additional six years. Regarding the option for an additional six years, Section 3 of the Second Amendment to the original lease states the following:

> "The parties hereto mutually covenant and agree to then negotiate as to the terms, conditions and rental for said extension, and if such negotiation results in mutual understanding and agreement, Commission, by resolution, shall grant such extension of term, subject to the covenants and conditions arrived at through such negotiations, which covenants and conditions shall be reasonable and fair."

In Attachment III, a memo provided by the PUC, Mr. Dowd explains why the six-year option was not approved by the PUC. Mr. Dowd states the PUC:

> "did not approve the six-year extension option because at the time the tenant sent notice to

> exercise the option there were too many unknowns regarding continued water supply, costs associated with corrective action for the petroleum pipeline, and essential capital improvements needed at the course."

Attachment III further explains why this proposed lease has been recommended by the PUC on a sole source basis without the use of competitive bidding processes and why the lessee has been permitted to operate on a month-to-month holdover basis since August 31, 2001 after the remaining six-year option under the existing lease was not approved by the PUC. Among other reasons, Mr. Dowd states that "the bid process could have taken anywhere from one and a half to two years to complete and award, as was the PUC's experience with Crystal Springs Golf Course in 1997." Further, Mr. Dowd stated that the PUC had concerns over potential environmental damage and the PUC's potential liability related to the unknowns regarding continued water supply and costs associated with corrective action for the petroleum pipeline. Attachment III details the potential environmental issues that currently face Sunol Valley, including water supply problems and an eroding petroleum pipeline, which according to the PUC, are critical, and could not wait any longer to be addressed. The memo from Mr. Dowd also explains why this proposed subject new 25-year lease has been recommended for award by the PUC to Sunol Valley on a sole source basis without the use of competitive bidding procedures. The memo concludes by stating:

> "The critical work at the course could not and cannot wait any longer. The SFPUC has been very pleased with Sunol Golf Course's willingness to perform the "Required Work" and they have been very cooperative and acted in good faith throughout the negotiation process. The SFPUC is also in full support of the recommendations outlined in the Dornbusch Analysis. Upon approval of the new Lease all of the above referenced critical projects will immediately commence."

The PUC has proposed a new 25-year lease without competitive bidding with the following rent structure and conditions:

- The Minimum Rent would be increased, from the current level of $1,000 monthly or $12,000 annually to $20,833 monthly or $250,000 annually in Lease Years 1-5; increased to $41,667 monthly or $500,000 annually in Lease Years 6-10; and adjusted annually by the amount of the percentage change in the CPI for Lease Years 11-20. According to Mr. Dowd, the Minimum Rent was set at a low level in the original lease because rents paid were always assumed to be based on the percentage of gross revenues. Mr. Dowd adds that at the time of the original lease, the golf industry in the Sunol Valley area was not strong, and the number of rounds being played at the course were far less than they are today. Mr. Dowd advises that as residential communities continued to develop around the Sunol Valley area, demand for golf also grew and the Percentage Rent became the most important factor for calculating rent. However, since 1965, or over 38 years ago, when the original lease with Sunol Valley was first awarded by the PUC, the rental rates, as determined by the percentage of gross revenues, have never been increased and the PUC has only realized increased rent as a result of increases in Sunol Valley's gross revenues. In fact, as previously noted, the proposed lease provides for a 50 percent reduction in the percentage of gross receipt rates for the first five years of the new 25-year lease. Mr. Dowd explains that "considering the $2,096,998 in required work and the additional $10,836,202 in capital improvements needed, there wasn't room for a rent increase". However, Mr. Dowd's statement does not directly address why there has never been an increase in the rates, as determined by a percentage of gross revenues, for over 38 years. Although the annual Minimum Rent is being increased under this proposed lease, Mr. Dowd acknowledges that the rent has always been paid under the percentage of gross method and not under the Minimum Rent method.

- Percentage rent would be reduced by 50 percent from the payments required under the existing lease in Years 1 to 5, from 10 percent in Admissions gross revenues plus 5 percent of Equipment Rentals gross revenues plus 8.25 percent of Concessions gross revenues to 5 percent in admissions gross revenues plus 2.5 percent of Equipment Rentals gross revenues plus 4.125 percent of Concessions gross revenues. In Lease Years 6 through 25, Percentage Rent would return to the same levels now being paid under the existing lease of 10 percent in Admissions gross revenues plus 5 percent of Equipment Rentals gross revenues plus 8.25 percent of Concessions gross revenues. Attachment IX, provided by Mr. Dowd, explains how the Minimum Rent and the Percentage Rent levels under the proposed lease were determined.

- The security deposit required to be maintained by Sunol Valley would be increased from $50,000 to $250,000.

- Sunol Valley would be responsible to pay for certain capital improvements required in the first two years of the Lease (as summarized above and in Attachment I) in an amount of not less than $2,096,998.

- Sunol Valley would be required to pay the PUC an amount equal to $2,500 for processing fees. According to Mr. Dowd, this is the standard amount the PUC charges all lessees for new leases to cover administrative expenses. Mr. Dowd explains that the $2,500 processing fee was determined by the PUC to provide for staff time expenses for administering leases, and that an individual determination of staff time regarding this proposed lease is not available.

- Sunol Valley would be required to pay 2 percent of annual gross revenues into a Capital Improvement Fund as noted above.

Comments:

1. According to Mr. Dowd, early in 2003, the PUC engaged the services of Dornbusch Associates, at a cost of $57,478, paid for by Sunol Valley, to perform an assessment of the economics of the original lease and the current operation of the golf course. Mr. Dowd notes that Dornbusch Associates was selected by the PUC as a consultant, based on their past experience with the Crystal Springs Golf Course Leases. Dornbusch Associates was instructed to consider the not less than $2,096,998 in capital improvements that the Lessee would be responsible for, as part of their analysis and recommendations. However, as previously noted, the scope and the estimated cost of these capital improvements, totaling $2,096,998, were determined by Tanner Consulting, a firm, not retained by the PUC, but rather retained by the lessee itself, Sunol Valley. A summary of the Dornbusch Associates findings and subsequent recommendations are described in Attachment IV, provided by the PUC.

2. Attachment V, prepared by the Budget Analyst from data provided by the PUC, is a 10-year history of Sunol Valley's gross revenues, percentage rent, and actual rent paid to the PUC. As shown in Attachment V, since 1993, percentage rents paid to the PUC by Sunol Valley always exceeded the minimum annual rent of $12,000 each year by at least $413,839 per year.

3. Attachment VI, provided by the PUC, shows that the projected internal rate of return for Sunol Valley at the existing rent structure on the month-to-month holdover basis, projected for 25 years, is 12.6 percent. According to Mr. Dowd, the appropriate internal rate of return for Sunol Valley is estimated between 17 and 21 percent, as shown on page 2 of Attachment IV. Attachment VII, also provided by the PUC, shows the projected internal rate of return for Sunol Valley at the proposed rent schedule at 16.6 percent. The Budget Analyst has not independently verified the source data used for the Dornbusch Associates calculations or that a projected rate of return for Sunol Valley of between 17 and 21 percent is appropriate. Mr. Dowd advises that the proposed percentage rent reduction for the first five years is necessitated by the $2,096,998 to be expended on required

capital improvements, in addition to substantial future capital improvements needed at both the golf course and the clubhouse. According to Mr. Dowd, the percentage rent is being reduced for the first five years to offset a majority of the $2,096,998 in required work to be performed by Sunol Valley.

"Internal rate of return" is a financial measure of the annual discount rate that makes the net present value of a series of investment cash flows equal to zero. In the context of the proposed Sunol Valley lease agreement, the higher the internal rate of return, the greater Sunol Valley's net income over the 25-year term of the new lease agreement. Therefore, the PUC's proposal to reduce Sunol Valley's percentage rent by 50 percent for the first five years of the new, 25-year lease increases Sunol Valley's Projected Cash Flow, over the 25-year term of the proposed lease by $1,410,054, or 10.4 percent, from $13,571,586 to $14,981,640, as shown below. This increase in projected cash flow for Sunol Valley increases their internal rate of return from 12.6 percent to 16.6 percent as shown below.

Lease Year	Sunol Valley - Projected Annual Cash Flow - at Existing Percentage Rent Levels	Sunol Valley - Projected Annual Cash Flow at Proposed Percentage Rent Levels (one half percentage rent for years one through five)	Difference In Sunol Valley's Projected Annual Cash Flow
1	$ (3,016,357)	$ (2,745,403)	$ 270,954
2	438,477	714,850	276,373
3	(1,117,279)	(835,379)	281,900
4	153,891	441,429	287,538
5	611,590	904,879	293,289
6	38,659	38,659	-
7	636,299	636,299	-
8	557,130	557,130	-
9	662,005	662,005	-
10	675,245	675,245	-
11	688,750	688,750	-
12	702,525	702,525	-
13	741,940	741,940	-
14	860,268	860,268	-
15	877,473	877,473	-
16	895,022	895,022	-
17	912,923	912,923	-
18	819,162	819,162	-
19	949,805	949,805	-
20	968,801	968,801	-
21	988,177	988,177	-
22	1,007,941	1,007,941	-
23	1,120,858	1,120,858	-
24	1,143,275	1,143,275	-
25	1,255,006	1,255,006	-
	$ 13,571,586	$ 14,981,640	$ 1,410,054
Average Annual Cash Flow	$ 542,863	$ 599,266	$ 56,403
Internal Rate of Return	12.6 %	16.6 %	

Therefore, by granting the 50 percent reduction in percentage rent payable by Sunol Valley for the first five years of the proposed lease agreement, the PUC will realize reduced projected revenues of $1,410,054, or $282,011 annually for five years.

Further, the Budget Analyst notes that the PUC's decision that a 16 percent internal rate of return is appropriate is based on a consultant's report, prepared by Dornbusch Associates, that ".. an appropriate nominal target rate-of-return might be projected to be as low as 16% to 20%." Dornbusch Associates report was based on:

- An analysis of Crystal Springs Golf Partners expected internal rate of return, after final negotiation of lease negotiations with the City, of 24 percent. Crystal Springs Golf Partners was awarded, through a competitive Request for Proposals process, the lease for operation of the PUC-owned Crystal Springs golf course in Burlingame, approved by the Board of Supervisors in December of 1996.

- A survey of investors in twelve leased golf club properties throughout California (and primarily in Northern California, according to Dornbusch and Associates report. Dornbusch and Associates stated that "They [the surveyed investors] reported their target returns on "unleveraged" invested capital to be in the range of 17% to 24%. Leveraged returns to equity were targeted in the range of 22% to 24%".

The Budget Analyst requested the source data for the Dornbusch and Associates survey. However, we were not provided with such source data because, according to Dornbusch and Associates response, such source data was obtained on a confidential basis and could therefore not be provided.

As noted above, the Budget Analyst did not independently verify that a projected rate of return for Sunol Valley between 17 and 21 percent is appropriate.

4. According to Mr. Dowd, the required capital improvements described above and in Attachment I are necessary for the operations of Sunol Valley. In Attachment VIII, Mr. Dowd explains why such improvements are required. Mr. Dowd advises that the installation of the capital improvements will have no impact on regular course operations and will not impact revenues beyond the reduced percentage rent during the first five years under the proposed lease.

5. The Budget Analyst notes that in the 10-year history of rents paid (shown in Attachment V), the percentage rent was considerably greater than the minimum annual rent of $12,000, which averaged $41,705 per year. Additionally, gross revenues only declined materially in three of the 10 years. The Budget Analyst notes that the proposed reduction in percentage rent for Lease Years 1 through 5 will offset $1,410,054, or 67.2 percent of the $2,096,998 in required work to be performed by Sunol Valley. In lease Years 6 through 25 the percentage rents will be returned to the same levels as are being paid under the existing lease.

6. The Budget Analyst notes that, without a competitive bidding process for the selection of a lessee for the Sunol Valley Golf Course, it is impossible to determine whether the proposed lease is in the best interest of the City. As one example, it is unknown if some other prospective bidder would have absorbed 100 percent of the costs of the required $2,096,998 in capital improvements, without requiring a rent reduction for the first five years of the new lease. While the PUC has justified their decision to not conduct a competitive bidding process partially on the basis of their representation that it would have taken one and a half to two years to conduct such a competitive process, the Budget Analyst notes that it has been over two years and one month since the original lease with Sunol Valley expired on August 31, 2001 and that original lease has been continued by the PUC on a month-to-month holdover basis. As previously noted, the Percentage Rent under the proposed lease would be reduced for the first five years of the lease by 50 percent from the payments required under the existing lease. Further in years 6 through 25, the Percentage Rent would only return to the same levels now being paid under the existing lease, which was originally awarded approximately 38 years ago, in 1965. Therefore, the proposed lease provides for no increases in the percentage rates except for normal CPI adjustments. Although the minimum rent is being increased from $12,000 to up to $500,000 beginning in lease year 6, Mr. Dowd has advised that it has always been assumed that the Percentage Rent and not the Minimum Rent would be paid to the

PUC. The Budget Analyst continues to question why the PUC permitted the lessee, Sunol Valley, to retain its own consultant to determine the scope and related costs of the required $2,096,098 in capital improvements instead of having the PUC retain a consultant for making such determinations.

Recommendations:

1. The Budget Analyst recommends an amendment to the proposed resolution to require the addition of a specific lease provision to require that the lessee, Sunol Valley, expend not less than $10.8 million in capital improvements during the 25-year term of the lease, in addition to the $2,096,098 noted above, by inserting the following on line 16 of the proposed resolution:

> FURTHER RESOLVED that the Board of Supervisors approval of this lease is conditioned on the inclusion of a specific lease provision that that Tenant shall be obligated to expend an aggregate amount of not less than Ten Million Eight Hundred Thousand Dollars ($10,800,000), in addition to the requirement to expend $2,096,098, in connection with completing additional capital improvements during the term of the lease.

2. In summary, this proposed new 25-year lease, would be awarded to the same lessee, Sunol Valley, who was awarded the original lease in 1965. Sunol Valley continues to lease the premises on a month-to-month basis after the PUC did not approve a six year extension under the existing lease. The new lease is being awarded on a sole source basis, without the use of competitive bidding procedures, based partially on the PUC's representation that a competitive bidding procedure could take one and a half to two years to conduct. Yet, the Budget Analyst notes that it has been over two years and one month since the original lease with Sunol Valley expired on August 31, 2001 and that the original lease has been continued by the PUC on a month-to-month holdover basis. Under this proposed new lease, the rental rates, as determined by a percentage of gross revenues, not only have not been increased since 1965, but such rates are being reduced by 50 percent for the first five years of the proposed new lease.

BOARD OF SUPERVISORS
BUDGET ANALYST

Based on all of these facts, the Budget Analyst cannot recommend approval of this proposed resolution. However, the Budget Analyst considers approval of the proposed resolution, as amended, to be a policy matter for the Board of Supervisors based on the representation of the PUC that approval of this new lease can no longer be delayed because of environmental concerns.

SUNOL VALLEY GOLF COURSE
Required Work

Irrigation Supply New Pipe Line

Item #	Description	QTY	Price	Amount	
1	Pump Station Improvements (Controls and Electrical Upgrade)	1	$ 59,000.00	$ 59,000.00	
2	Install 12" HDPE Pipe From PS-1 to Pond #1	2100 LF	$ 66,000.00	$ 66,000.00	
3	Design Engineering and Permitting	1	$ 13,600.00	$ 13,600.00	
			SUB TOTAL		$ 138,600.00

Pond #3 Improvement Cost Estimate

Item #	Description	QTY	Price	Amount	
1	Demolition and Mobilization	1	$ 59,000.00	$ 59,000.00	
2	Grading	1	$ 105,061.00	$ 105,061.00	
3	Spillway From Pond #3 to Pond #4	1	$ 2[illegible]5,000.00	$ 296,000.00	
4	12" Piping Improvements to Pond #3	1	$ 51,000.00	$ 51,000.00	
5	24" Piping Installation From Pond #3 - Pond #4	1	$ 33,000.00	$ 33,000.00	
6	Bridge over Spillway	1	$ 46,000.00	$ 46,000.00	
7	Landscape and Finish	1	$ 61,000.00	$ 61,000.00	
8	Dewatering Pumps	1	$ 19,000.00	$ 19,000.00	
9	Design Engineering and Permitting	1	$ 65,500.00	$ 65,500.00	
			SUB TOTAL		$ 735,561.00

Pond #4 and #5 Improvement Cost Estimate

Item #	Description	QTY	Price	Amount	
1	Demolition and Mobilization	1	$ 56,000.00	$ 56,000.00	
2	Spillway From Pond #4	1	$ 155,000.00	$ 155,000.00	
3	12" Piping Supply Improvements	1	$ 44,000.00	$ 14,000.00	
4	Bridge over Spillway	1	$ 46,000.00	$ 39,700.00	
5	Irrigation Pump Station (Pump, Enclosure, Filters, Intake and Wet Well)	1	$ 200,000.00	$ 200,000.00	
6	Design Engineering and Permitting	1	$ 46,400.00	$ 46,400.00	
			SUB TOTAL		$ 511,100.00

Mitigation Improvements / Maintenance Building Relocation

Item #	Description	QTY	Price	Amount	
1	Grubbing, Clean-up and Mobilization	1	$ 15,000.00	$ 15,000.00	
2	Grading	11250	$ 3.00	$ 33,750.00	
3	Electrical, Water, Sewer, Phone	1	$ 53,000.00	$ 53,000.00	
4	Buildings (2)	7400	$ 28.00	$ 207,200.00	
5	Parking and Landscape	16600	$ 4.00	$ 66,400.00	
6	Demolition of Old Structures	1	$ 53,000.00	$ 53,000.00	
7	Re-vegetation and Clean-up	1	$ 40,000.00	$ 40,000.00	
8	Fuel Tank and Chemical Storage Containment	1	$ 54,000.00	$ 54,000.00	
9	Design Engineering and Permitting	1	$ 52,200.22	$ 52,200.22	
			SUB TOTAL		$ 574,550.22

TOTAL	$ 1,959,811.22
Contingency	$ 137,186.79
Total	$ 2,096,998.00

SUNOL VALLEY GOLF & RECREATION COMPANY
CAPITAL IMPROVEMENTS
GOLF COURSE

Year	Greens(1)	Irrigation	Pavement Maint. Roac Parking Lot	Cart Paths	Equipment(2	Electric Cart Barn	Golf Cars(3)	Total
2003					$60,000			**$60,000**
2004					$61,200			**$61,200**
2005		$1,669,842	$208,080		$62,424			**$1,940,346**
2006	$106,121				$63,672	$265,302	$155,033	**$590,128**
2007	$108,243				$64,946		$158,134	**$331,323**
2008	$110,408			$496,836	$66,245		$161,296	**$834,786**
2009	$112,616				$67,570		$164,522	**$344,708**
2010	$114,869				$68,921		$167,813	**$351,602**
2011	$117,166				$70,300		$171,169	**$358,634**
2012	$119,509				$71,706		$174,592	**$365,807**
2013	$121,899				$73,140		$178,084	**$373,123**
2014	$124,337				$74,602		$181,646	**$380,586**
2015					$76,095		$185,279	**$261,373**
2016					$77,616		$188,984	**$266,601**
2017					$79,169		$192,764	**$271,933**
2018					$80,752		$196,619	**$277,371**
2019					$82,367		$200,552	**$282,919**
2020					$84,014		$204,563	**$288,577**
2021					$85,695		$208,654	**$294,349**
2022					$87,409		$212,827	**$300,236**
2023					$89,157		$217,084	**$306,240**
2024					$90,940		$221,425	**$312,365**
2025							$225,854	**$225,854**
2026							$230,371	**$230,371**
2027							$234,978	**$234,978**

(1) 4 Greens per year for 36 greens. (2) Golf course equipment, such as mowers. (3) 4 year leases, not purchase.

Estimated Inflation = 2.0%

Total $9,545,410

(continued on next page

SUNOL VALLEY GOLF & RECREATION COMPANY
CAPITAL IMPROVEMENTS
CLUBHOUSE

Year	Carpet	Roof	Dancefloor	Tables & Chairs			Office Eq./ Computers	Remodel Cafe/Bar		Total
2003							$15,000			$15,000
2004							$15,300	$153,000		$168,300
2005	$83,232						$15,606			$98,838
2006		$159,181	$21,224				$15,918			$196,323
2007							$16,236			$16,236
2008				$88,326			$16,561			$104,888
2009							$16,892			$16,892
2010	$91,895						$17,230			$109,125
2011							$17,575			$17,575
2012							$17,926			$17,926
2013							$18,285			$18,285
2014							$18,651			$18,651
2015	$101,459						$19,024			$120,483
2016							$19,404			$19,404
2017							$19,792			$19,792
2018							$20,188			$20,188
2019							$20,592			$20,592
2020	$112,019						$21,004			$133,023
2021							$21,424			$21,424
2022							$21,852			$21,852
2023							$22,289			$22,289
2024							$22,735			$22,735
2025							$23,190			$23,190
2026							$23,653			$23,653
2027							$24,127			$24,127

* Covered by annual repair and maintance expenditures.

Source: Dornbusch Associates

Total + **$1,290,792**
9,545,410

MEMORANDUM

TO: BUDGET ANALYST

FROM: GARRETT M. DOWD, DIRECTOR, SFPUC REAL ESTATE SERVICES

DATE: 10/29/03

RE: SUNOL VALLEY GOLF COURSE LEASE NEGOTIATION

Per your request, I write to further address a number of issues related to the above referenced Lease negotiation. The first issue deals with the fact that the existing Lease has been in a Month-to-Month Holdover since August 31, 2001 and the fact that the SFPUC did not formally take action to approve a Six-Year Extension Option contained in the Lease. The second issue deals with the fact that the proposed new 25-year Lease was not put out to public bid.

Month-to-Month Holdover/ Six-Year Extension Option

As to the length of the Month-to-Month Holdover the reasons are many and somewhat complicated. First and foremost, there has been serious concern over the ability to find a reliable water supply for the golf course. Traditionally Sunol Golf Course has been able to draw water directly from Alameda Creek to irrigate the course; however, in recent years this has become a major problem due to annual grading that had taken place in Alameda Creek and concern that such grading might be impacting aquatic life. To remedy this situation, staff has been working with the Lessee for well over a year and a half to design a project, which will result in a direct connection to the SFPUC's water system thus protecting Alameda Creek from future impacts and guaranteeing a reliable water supply. This project has involved numerous reviews from environmental agencies, consultants, SFPUC staff, and the City Attorney's Office.

In addition to the water supply issue, a dam spillway on the property had to be re-engineered and redesigned so as to protect a major petroleum pipeline from erosion problems at the base of the dam spillway. Over the past few years, overflow in wet weather months has been undercutting the petroleum pipeline and without a well-engineered solution the pipeline could fail causing an environmental disaster. Given that the SFPUC is the underlying fee owner of the property, liability concerns have been first and foremost.

The goal from the outset of Lease negotiations has been to solve both the water supply issue and the pipeline problem, in as expeditious a way as possible, with as little capital outlay from the City as possible

While simultaneously dealing with the aforementioned issues, staff also engaged the services of Dornbusch Associates to perform an independent assessment of the economics of the Original Lease and Sunol Valley Golf's potential future operations at the course. This assessment took a number of months to complete because there were a number of unknowns as to costs associated with the aforementioned issues (water supply remedies and the petroleum pipeline issue). In a typical domino effect, only after all pertinent cost data was gathered could the SFPUC or the tenant make an educated decision as to what the best direction was for future course operations. Thus the tenant (while reluctant) was willing to remain in a Month-to-Month holdover situation until all studies and reports were completed. Once that data was obtained, Dornbusch Associates were able to plug in the appropriate figures and make a formal presentation to the SFPUC resulting in the recommendation that is being presented to the Board of Supervisors.

In summary, the SFPUC did not approve the Six-Year Extension Option because at the time the tenant sent notice to exercise the option there were too many unknowns regarding continued water supply, costs associated with corrective action for the petroleum pipeline, and essential capital improvements needed at the course. Instead, the SFPUC opted to act in good faith and leave the Lease in a Month-to- Month Holdover until all cost data related to the aforementioned issues could be obtained and Dornbusch and Associates completed a formal study as to the appropriate business terms.

Public Bid Process

After receiving the Dornbusch Associates assessment, the SFPUC approved a new twenty-five year Lease with the current tenant. There were a number of reasons the SFPUC opted for a direct negotiation and a long term Lease, the most important of which are as follows: (1) the current Lease Agreement contains an Option Clause that allows Sunol Valley Golf Course to continue operation of the course for an additional six-year term. The clause reads, "The parties hereto mutually covenant and agree to negotiate as to the terms, conditions and rental rate for said extension, and if such negotiation results in mutual understanding and agreement, Commission, by resolution, shall grant such extension of term, subject to the covenants and conditions arrived at through such negotiations, "**which covenants and conditions shall be reasonable and fair.**" On July 6, 2000 Sunol Valley Golf submitted a formal letter asking to exercise their option per the terms of the original Lease Agreement. Thus, the SFPUC had certain obligations to work with the current lessee to develop a "reasonable and fair" plan for Sunol Valley Golf's continued tenancy for at least the next six years; (2) critical and time sensitive issues related to water supply and storage and petroleum pipeline protection at the course could not be put off any longer (certainly not six years). If a direct long-term deal was not negotiated with Sunol Golf Course it is possible they could have chosen not to move forward with the Six-Year Extension Option either leaving the City in a very precarious position. In fact, given the Month-to Month term on the existing Lease the lessee could have vacated the premises with as little as 30 days notice. The City would have had to

find a new lessee in short order willing to take on $2.1 million dollars of "Required Work" and as much as $10.8 million dollars on golf course and clubhouse improvements and find a way to keep the course functioning properly throughout the entire process; (3) Sunol Golf Course has a proven (40 year) track record with the City and County of San Francisco. They have continuously proven their dedication to the facility, which was originally built by them. In order to accomplish the "Required Work" in an expedited manner this relationship was essential; (4) it is anticipated the costly improvements ($2.1 million dollars in "Required Work" and $10.8 million dollars in golf course and clubhouse upgrades) would have an adverse impact on any bid process. The bid process could have taken anywhere from 1-½ - 2 years to complete and award, as was the SFPUC's experience with Crystal Springs Golf Course in 1997. Most importantly, the SFPUC would only now be beginning the bid process given all the data that had to be obtained (water supply and pipeline remedies) and no assurances could be given that the bid wouldn't be contested by one or more of the bid participants causing even further delay and continued liability for the City.

In summary the critical work at the course could not and cannot wait any longer. The SFPUC has been very pleased with Sunol Golf Course's willingness to perform the "Required Work" and they have been very cooperative and acted in good faith throughout the negotiation process. The SFPUC is also in full support of the recommendations outlined in the Dornbusch Analysis. Upon approval of the new Lease all of the above referenced critical projects will immediately commence.

If I can offer further explanation as to any of the issues raised please feel free to contact me directly at 487-5211.

DEPARTMENT Real Estate Services AGENDA NO.

MEETING DATE September 23, 2003

SUMMARY OF PROPOSED ACTION:

Authorizing the General Manager of Public Utilities to execute on behalf of the City and County of San Francisco a lease with Sunol Valley Golf & Recreation Company (SVG&R) for approximately 280 acres of San Francisco Public Utilities Commission (SFPUC) land located on a portion of Parcels 61 and 65 of Alameda County Lands, Sunol, California, for the continued operation of a public golf course and related facilities located in Sunol, California.

Sunol Valley Golf & Recreation Company has been on a month-to-month holdover since August 31, 2001. Numerous issues related to the golf course water system operation delayed the lease extension negotiations, such as the need for the lessee to cease diverting water directly from Alameda Creek in favor of a connection to the SFPUC water system. While simultaneously addressing the aforementioned issues, staff also engaged the services of Dornbusch Associates, at Lessee's expense, to perform an independent assessment of the economics of the Original Lease and future operations of the Premises.

The following is a summary of the **key findings by Dornbusch Associates** regarding Sunol Golf Course:

- The Sunol Valley Golf and Recreation Co. (SVG&R) has demonstrated its qualifications to continue to manage the property and the City would like SVG&R to continue to manage the property, to invest in significant improvements to the golf course and clubhouse, as well as to invest in special projects necessary to rehabilitate the golf course water supply infrastructure.
- The Bay Area golf market has softened considerably over the past several years as a result of a major expansion of the golf inventory that occurred in the mid to late 1990s, combined with the effects of an economy in recession.
- Until the recent economic down turn, golf revenues at Sunol Golf Course increased fairly steadily. Even through the decline in revenues, SVG&R managed its costs to sustain a healthy profitability. Future revenues are expected to grow again when the economy improves.
- SVG&R are presently faced with a significant financial burden. New investments are required to improve the course's irrigation system, replace the greens, remodel the café/bar, repave the maintenance road and parking lot, replace the golf cart barn, and to rehabilitate the golf course water supply infrastructure. The most urgent improvement is the installation of a new water supply connection to the Sunol Aqueduct to ensure the continued reliable delivery of irrigation water for the operation of the golf course (the "Irrigation Supply System Project").
- SVG&R has made investments in the past and would need a long-term lease to justify new investments.

Recommendations From Independent Appraiser

- Given the substantial Capital Improvements that need to be made at the course, SVG&R needs a new lease term of 25 years in order to realize an appropriate rate of return, commensurate with its financial and operating risks.
- By reducing the rent on green fees, tournaments and golf cart rental to half their current levels for the next five years, then restoring the percentages to the current levels for the remainder of the lease term, SVG&R might expect a 16.6% rate of return, somewhat closer to, but still below, the 17% to 21% range which is a reasonable target for the industry.
- Rent reduction is necessitated by the nearly $2.1 million in Required Work that SVG&R is expected to fund in the first year, in addition to substantial future capital improvements needed both for the golf course and clubhouse.

Special Lease Clauses: 8.2, 8.3, [context in brackets]

8.2 Required Work:

(a) Tenant shall perform, at Tenant's sole cost and expense, certain Improvements and Alterations to the Premises, including without limitation, the Fuel Pipeline Project [a future project, subject to permitting, environmental clearance and City approval, to redesign the spillways of two irrigation ponds to eliminate erosion in vicinity of a fuel pipeline crossing the golf course], the Irrigation Supply System Project [a permanent connection to Sunol Aqueduct to allow lessee to cease pumping irrigation water directly from Alameda Creek] and Irrigation System Improvements [future irrigation system work designed to improve water use efficiency, subject to City approval]. In no event shall the completion of the Required Work be extended beyond 2 (two) years following the Commencement Date. Based on current estimates the cost of Required Work will be approximately $2,096,998.00.

8.3 Capital Improvement Program.

(a) Tenant shall establish and maintain a separate, interest-bearing account (the "Capital Improvement Fund"). Tenant shall, on or before the twentieth (20th) day of each month, deposit an amount into the Capital Improvements Fund equal to (i) two percent (2%) of the Gross Revenues from the preceding month in Lease Years 1 through 25. Such funds are to be held by Tenant in trust for the benefit of the City's interest in the Premises, including its reversionary interest in the Premises upon the expiration or earlier termination of this Lease. Interest earned on funds held in such account shall become part of the Capital Improvement Fund and all amounts remaining in the Capital Improvement Fund at the end of the Term or any earlier termination of this Lease shall be remitted to City.

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(b) Funds held in the Capital Improvement Fund shall be used exclusively for the construction, repair and replacement of capital items, including Improvements, fixtures, furniture or equipment, which are needed to repair or replace, over time, capital items which are subject to wearing out after a useful life and which are included in, located on or used in connection with the Premises, and which if not maintained or repaired, could adversely affect the City's interest in the Premises, including its reversionary interest in the Premises upon the expiration or earlier termination of this Lease. Construction of any such capital improvements shall be conducted in accordance with all provisions of Section 8.1. Funds held in the Capital Improvement Fund may not be expended for any of the Required Work.

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Gross Revenues - Sunol Valley Golf and Recreation Co.

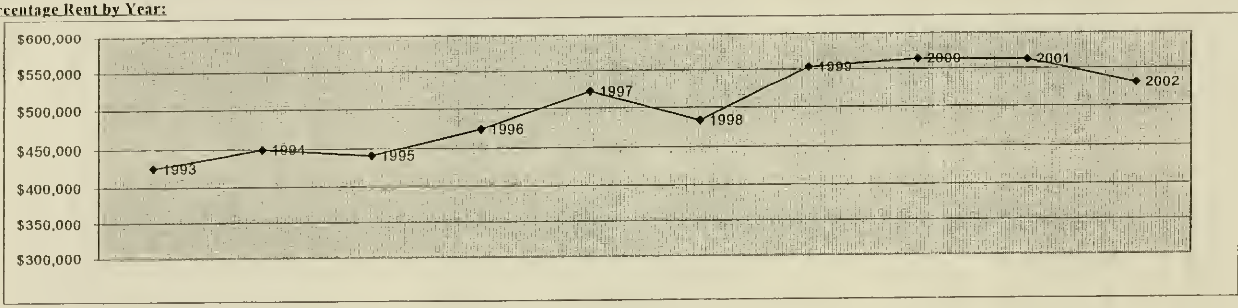
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Green Fees	$ 1,993,363	$ 2,133,622	$ 2,103,913	$ 2,321,527	$ 2,582,950	$ 2,351,849	$ 2,776,909	$ 2,845,114	$ 2,887,894	$ 2,764,333
Cart Revenue	991,233	1,008,716	961,124	960,836	999,306	878,151	998,740	941,320	965,941	956,334
Concession Revenue	2,144,746	2,247,816	2,211,970	2,349,497	2,587,714	2,472,312	2,733,183	2,813,892	2,732,904	2,497,741
Total	$ 5,129,342	$ 5,390,153	$ 5,277,007	$ 5,631,860	$ 6,169,970	$ 5,702,312	$ 6,508,832	$ 6,600,326	$ 6,586,739	$ 6,218,408
Percent Change		5.1%	-2.1%	6.7%	9.6%	-7.6%	14.1%	1.4%	-0.2%	-5.6%

Percentage Rent Paid to PUC by Sunol Valley Golf and Recreation Co.

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Green Fees: 10%	$ 199,336	$ 213,362	$ 210,391	$ 232,153	$ 258,295	$ 235,185	$ 277,691	$ 284,511	$ 288,789	$ 276,433
Cart Revenue: 5%	49,562	50,436	48,056	48,042	49,965	43,908	49,937	47,066	48,297	47,817
Concession Revenue: 8.25%	176,942	185,445	182,488	193,834	213,486	203,966	225,488	232,146	225,465	206,064
Total	$ 425,839	$ 449,243	$ 440,935	$ 474,028	$ 521,747	$ 483,058	$ 553,115	$ 563,723	$ 562,551	$ 530,314
Percent Change		5.5%	-1.8%	7.5%	10.1%	-7.4%	14.5%	1.9%	-0.2%	-5.7%

Total Rents Paid:	$	5,004,55
Avg. Per year:	$	500,455.3
Avg. Per month:	$	41,704.6

Graph of Percentage Rent by Year:



Source : Prepared by Budget Analyst using source data supplied by Public Utilities Commission.

EXHIBIT 3A

SUNOL VALLEY GOLF & RECREATION COMPANY
PROJECTED CASH FLOW & INTERNAL RATE OF RETURN
NEW CONTRACT
25 YEARS - CURRENT RENT

CAPITAL INVESTMENT		
Period	Improvements	Investment
2003-2022	Golf Course	$11,642,408
2003-2022	Club House	$1,290,792
Total		$12,933,200
Capital Investment Value		$1,499,238
INFLATION		
Inflation Assumed @		2.0%

DEPRECIATION SCHEDULE	
Depreciated Category	Life Expectancy
Furniture, Fixtures & Equipment (1)	10 Years
Pavement (2)	11 Years
Greens (2)	14 Years
Irrigation (2)	20 Years
Buildings (3)	35 Years

(1) Marshall & Swift, Life Expectancy Guidelines Section 97, Page 15
(2) Marshall & Swift, Life Expectancy Guidelines Section 97, Page 13
(3) Marshall & Swift, Life Expectancy Guidelines Section 97, Pages 5-6

PROPOSED RENT STRUCTURE		
Category	Estimated % of Gross	% Rent
Green Fees & Trnmt	46%	10.00%
Golf Car Rentals	15%	5.00%
Merchandise Sales	8%	8.25%
Food & Beverage	31%	3.25%
Other Revenues	0%	7.00%
Effective Rate on Total Revenues		8.57%

Contract Year Beginning July 1	Initial Net Capital Investment	Pre-SF Rent Pre-Tax Cash Flow	New Capital Investments	Working Capital Personal Property Recovery	Total Revenue	Rent	Annual Cash Flow
2003	($1,499,238)	$1,196,786	($2,171,998)		$6,325,146	($541,907)	($3,016,357)
2004		$1,220,722	($229,500)		$6,451,649	($552,745)	$438,477
2005		$1,485,705	($2,039,184)		$6,580,682	($563,800)	($1,117,279)
2016		$1,515,419	($786,452)		$6,712,296	($575,076)	$153,891
2007		$1,545,727	($347,559)		$6,846,542	($586,577)	$611,590
2008		$1,576,642	($939,673)		$6,983,473	($598,309)	$38,659
2007		$1,608,174	($361,601)		$7,123,142	($610,275)	$636,299
2010		$1,640,338	($460,727)		$7,265,605	($622,481)	$557,130
2011		$1,673,145	($376,209)		$7,410,917	($634,930)	$662,005
2012		$1,706,608	($383,733)		$7,559,136	($647,629)	$675,245
2013		$1,740,740	($391,408)		$7,710,318	($660,582)	$688,750
2014		$1,775,554	($399,236)		$7,864,525	($673,793)	$702,525
2015		$1,811,066	($381,856)		$8,021,815	($687,269)	$741,940
2016		$1,847,287	($286,005)		$8,182,251	($701,014)	$860,268
2017		$1,884,233	($291,725)		$8,345,896	($715,03[illegible])	$877,173
2018		$1,921,917	($297,559)		$8,512,814	($729,335)	$895,022
2019		$1,960,356	($303,511)		$8,683,071	($743,922)	$912,923
2020		$1,999,563	($421,600)		$8,856,732	($758,801)	$819,162
2021		$2,039,554	($315,772)		$9,033,867	($773,977)	$949,805
2022		$2,080,345	($322,088)		$9,214,544	($789,456)	$968,801
2023		$2,121,952	($328,530)		$9,398,835	($805,245)	$988,177
2024		$2,164,391	($335,100)		$9,586,812	($821,350)	$1,007,941
2025		$2,207,679	($249,043)		$9,778,548	($837,777)	$1,120,858
2026		$2,251,832	($254,024)		$9,974,119	($854,533)	$1,143,275
2027		$2,296,869	($259,105)	$88,865	$10,173,601	($871,623)	$1,255,006

Source: Dornbusch Associates

OPERATOR'S INTERNAL RATE OF RETURN: 12.6%

EXHIBIT 5B

SUNOL VALLEY GOLF & RECREATION COMPANY
PROJECTED CASH FLOW & INTERNAL RATE OF RETURN
NEW CONTRACT
25 YEARS - RENT REDUCTION 5 YEARS

CAPITAL INVESTMENT		
Period	Improvements	Investment
2003-2022	Golf Course	$0
2003-2022	Club House	$0
Total		$0
Capital Investment Value		$1,499,238

INFLATION	
Inflation Assumed @	2.0%

DEPRECIATION SCHEDULE	
Depreciated Category	Life Expectancy
Furniture, Fixtures & Equipment (1)	10 Years
Pavement (2)	11 Years
Greens (2)	14 Years
Irrigation (2)	20 Years
Buildings (3)	35 Years

(1) Marshall & Swift, Life Expectancy Guidelines Section 97, Page 15
(2) Marshall & Swift, Life Expectancy Guidelines Section 97, Page 13
(3) Marshall & Swift, Life Expectancy Guidelines Section 97, Pages 5-6

PROPOSED RENT STRUCTURE		
Category	Estimated % of Gross	% Rent
Green Fees & Trnmt	46%	10.00%
Golf Car Rentals	15%	5.00%
Merchandise Sales	8%	8.25%
Food & Beverage	31%	8.25%
Other Revenues	0%	7.00%
Effective Rate on Total Revenues		8.57%
Applied to Years 1 - 5		**4.28%**
Applied to Years 6 - 25		**8.57%**

Contract Year Beginning July 1	Initial Net Capital Investment	Pre-SF Rent Pre-Tax Cash Flow	New Capital Investments	Working Capital Personal Property Recovery	Total Revenue	Rent	Annual Cash Flow
2003	-$1,499,238	$1,196,786	-$2,171,998		$6,325,146	-$270,953	-$2,745,403
2004		$1,220,722	-$229,500		$6,451,649	-$276,373	$714,850
2025		$1,485,705	-$2,039,184		$6,580,682	-$281,900	-$835,379
2006		$1,515,419	-$786,452		$6,712,296	-$287,538	$441,429
2007		$1,545,727	-$347,559		$6,846,542	-$293,289	$904,879
2007		$1,576,642	-$939,673		$6,983,473	-$598,309	$38,659
2014		$1,608,174	-$361,601		$7,123,142	-$610,275	$688,750
2010		$1,640,338	-$460,727		$7,265,605	-$622,481	$557,130
2014		$1,673,145	-$376,209		$7,410,917	-$634,930	$662,005
2012		$1,706,608	-$383,733		$7,559,136	-$647,629	$675,245
2014		$1,740,740	-$381,856		$7,710,318	-$660,582	$688,750
2014		$1,775,554	-$399,236		$7,864,525	-$673,793	$702,525
2015		$1,811,066	-$381,856		$8,021,815	-$687,269	$741,940
2014		$1,847,287	-$286,005		$8,182,251	-$701,014	$688,758
2014		$1,884,233	-$291,725		$8,345,896	-$715,035	$877,473
2018		$1,921,917	-$297,559		$8,512,814	-$729,335	$895,022
2014		$1,960,356	-$303,511		$8,683,071	-$743,922	$912,923
2020		$1,999,563	-$421,600		$8,856,732	-$758,801	$819,162
2021		$2,039,554	-$315,772		$9,033,867	-$773,977	$949,805
2022		$2,080,345	-$321,530		$9,214,544	-$789,456	$968,801
2023		$2,121,952	-$328,530		$9,398,835	-$805,245	$988,177
2021		$2,164,391	-$335,100		$9,586,812	-$821,350	$1,007,941
2025		$2,207,679	-$249,043		$9,778,548	-$837,777	$1,120,858
2025		$2,251,832	-$254,024		$9,974,119	-$854,533	$1,143,275
2027		$2,296,869	-$259,105	$88,865	$10,173,601	-$871,623	$1,255,006

Source: Dornbusch Associates

OPERATOR'S INTERNAL RATE OF RETURN: 16.6%

MEMORANDUM

TO: BUDGET ANALYST

FROM: GARRETT M. DOWD, DIRECTOR, SFPUC REAL ESTATE SERVICES

DATE: 10/28/03

RE: SUNOL VALLEY REQUIRED WORK

Why are the improvements listed in 'Required Work' required?

In simplistic terms, there are ponds that hold irrigation water for the golf course. Each pond has a spillway. At the base of one of the spillways is a petroleum pipeline in jeopardy of being undercut by erosion which could snap the pipeline and cause a disastrous environmental clean up issue and knock out a major petroleum line supplying the Bay Area. The second part of the project deals with the Irrigation Supply System connecting and supplying the ponds which is essential to continued uninterrupted water supply at the course. No water = no golf course.

MEMORANDUM

TO: BUDGET ANALYST

FROM: GARRETT M. DOWD, DIRECTOR, SFPUC REAL ESTATE SERVICES

DATE: 10/23/03

RE: SUNOL VALLEY GOLF COURSE : PROPOSED RENT CONDITIONS

In response to your inquiry as to how the Minimum Base Rents were derived for the above referenced lease please note the following approach was taken:

Actual percentage rents for the past three years were analyzed and after negotiations with the tenant it was agreed that we would use 90% of the average rent paid to SFPUC as Base Rent. We then took 1/2 of that sum for the first five years in line with the recommendations in the Dornbusch Report.

In regards to how the proposed percentage rents were derived, percentage rents were recommended by Dornbusch Associates based on considerations of total required work, total capital improvements, and an appropriate rate of return to the operator. As part of the exercise he was told to try to at least keep the existing rent structure or as close to it as possible.

If I can offer further explanation as to any of the issues raised please feel free to contact me directly at 487-5211.

Items 5, 6 and 7 - Files 03-1319, 03-1320 and 03-1321

Departments: Recreation and Park Department

Items: 03-1319: Resolution approving and authorizing the execution and delivery of a ground lease between the City as lessor, and Music Concourse Community Partnership, a non profit public benefit organization, as lessee, relating to the Golden Gate Park Music Concourse underground parking facility project and amending the designation of the jurisdiction of the Golden Gate Park Concourse Authority.

03-1320: Ordinance making environmental findings and amending the San Francisco Park Code by adding Section 12.35 to establish parking rates for the Golden Gate Park Concourse Parking Facility.

03-1321: Resolution adopting environmental findings pursuant to the California Environmental Quality Act, State Guidelines, and Administrative Code Chapter 31; and adopting General Plan and Planning Code Section 101.1 findings in connection with the Golden Gate Park Concourse Authority Projects.

Background: 03-1319, 03-1320, 03-1321: The Golden Gate Park Revitalization Act of 1998, or Proposition J, was adopted by the San Francisco voters on June 2, 1998 to (1) improve the landscape and pedestrian environment of the Music Concourse area of Golden Gate Park, situated between the deYoung Museum and the Academy of Sciences (the Concourse), and (2) reduce the impact of vehicles in Golden Gate Park while still providing access for visitors through (a) the construction of an underground public parking garage, (b) implementation of related landscaping and (c) transit improvements. The Golden Gate Park Concourse Authority (GGPCA), a public agency of the City and County of San Francisco, was created in accordance with Proposition J as a non-profit entity as described in Attachment I provided by Mr. Michael Ellzey, Executive Director of the GGPCA. Attachment I states that "Staff consists of an executive director and an executive assistant, both of whom are employees of the City and County of San Francisco. The

executive director reports directly to the president of the Concourse Authority and is accountable to the Mayor."

The GGPCA is charged with (a) developing and implementing a plan to enhance the landscape in the Music Concourse area and (b) making environmental and transit improvements in Golden Gate Park. The Golden Gate Park Concourse Authority Projects, selected as the "preferred alternative" by the GGPCA in June of 2001 to achieve its goals, originally consisted of Phase I and Phase II. The Transportation Implementation Plan (TIP) Elements were included after a Transportation Feasibility Study was completed in 2001. Together, the Golden Gate Park Concourse Authority Projects consisting of Phase I, Phase II and TIP Elements are as follows:

- Phase I includes the construction of the Music Concourse Parking Garage, an underground public parking facility, the reconstruction and restoration of two pedestrian tunnels and portals, and associated Concourse surface improvements.
- Phase II includes the construction of an Underground Through Street between Kennedy Drive near Eighth Avenue to Middle Drive East.
- Transportation Implementation Plan (TIP) Elements include the Intra-Park Shuttle, Cultural Shuttle, Traffic Calming, Parking Management, Bicycle/Pedestrian Improvements and Muni Service Improvements projects.

A complete list of all of the TIP projects, a description of each project including funds spent to date, and the funding sources for the projects are described in Attachment I. According to Mr. Ellzey, because the TIP projects are currently in the design and development phase, the GGPCA is currently unable to provide the total estimated costs of, or exact sources of funds, for these projects. As noted in Attachment I, $650,000 has been expended from GGPCA funds for TIP projects. According to the GGPCA, the Music Concourse Community Partnership (MCCP), a non-profit public benefit corporation, would manage the design, construction, and operation of the Music Concourse Parking Garage

included in Phase I, subject to the approval and oversight of the GGPCA.

According to Mr. Ellzey, the GGPCA has decided not to implement Phase II of the Golden Gate Park Concourse Authority Projects, which is the Underground Through Street between Kennedy Drive near Eighth Avenue to Middle East Drive, due to (a) a lack of identified funding for the construction of the Underground Through Street, and (b) the anticipated significant environmental impact to the Rhododendron Dell, a flower garden located in the Golden Gate Park, which is adjacent to the site, and which would be damaged as a result of the construction of the Underground Through Street.

As noted above, Phase I would include the construction of an underground Music Concourse Parking Garage, a public parking facility to be located beneath Tea Garden Drive and Music Concourse Drive. According to Mr. Ellzey, this parking facility would consist of two two-level structures that would accommodate approximately 800 vehicles. As previously noted, the Music Concourse Community Partnership (MCCP), a non-profit public benefit corporation, would manage the design, construction, and operation of the Music Concourse Parking Garage, subject to the approval and oversight of the GGPCA. Attachment I explains how the MCCP was established and describes the Board and staff structure of the MCCP.

03-1319:

Lessor for Subterranean Land in and around the Music Concourse: The City and County of San Francisco, acting by and through The Golden Gate Park Concourse Authority and the Recreation and Park Commission.

Lessee of Subterranean Land in and around the Music Concourse: Music Concourse Community Partnership (MCCP), a nonprofit public benefit corporation.

Location: A subterranean portion of land in and around the Golden Gate Park Music Concourse. The subject premises to be leased by the MCCP from the City, contained within the area shown in Attachment II provided by the GGPCA, would be used for the construction and operation of the Music Concourse Parking Garage, which would accommodate approximately 800 vehicles in two two-level underground structures.

Square Footage: The proposed Music Concourse Parking Garage to be constructed would consist of 309,560 square feet of space in and around the Music Concourse area, as shown in the map in Attachment II.

Term of Proposed Lease between the City as Lessor and the MCCP as Lessee for Subterranean Land in and around the Music Concourse: According to Ms. Monique Moyer of the Mayor's Office of Public Finance, the proposed lease is expected to commence at the beginning of 2004. According to Mr. Ellzey, the construction by the contractor is anticipated to begin in January of 2004 and be completed by October of 2005. The proposed term of the lease is the earlier of 35 years or 30 days following the date on which the proposed MCCP 2004 Revenue Bonds (see below "Financing of the Music Concourse Parking Garage") are fully redeemed, which is expected to be 30 years, commencing at the beginning of 2004 and terminating in 2034. Upon termination of the proposed lease, the Parking Garage would be transferred by the MCCP to the City at no cost to the City.

According to Mr. Michael Martin of the City Attorney's Office, other events may cause the termination of the proposed lease, such as the default by the MCCP under terms of the lease or full repayment of the Revenue Bonds by the MCCP or the failure of the MCCP to complete construction of the Music Concourse Garage by the construction "Outside Date", estimated to be October 1, 2006. According to Ms. Moyer, if the MCCP has sufficient available funds to repay all of the outstanding 2004 Revenue Bonds, the City has the right to terminate the subject lease (see Comment No. 2).

Option to Renew: None

Required Reserves: Lessee must establish and maintain the 1) Repair and Replacement Reserve Account of $200,000 plus total budgeted repair and replacement expenditures, and 2) Probable Maximum Loss Reserve Account consisting of the lesser of 20 percent of the hard costs of constructing the Parking Garage, or $6,400,000.

Annual Base Rent Payable by the MCCP to the City for Subterranean Land in and around the Music Concourse: $100,000 annually, or $8,333 per month. Under the proposed lease, the annual base rent would be paid to the City by the MCCP up to the $100,000 by "surplus revenues" (see below, "'Net Surplus Revenues' Payable to the City by the MCCP"). According to Mr. Martin, the $100,000 in annual base rent, guarantees that the City will receive $100,000 annually as rent payments under the proposed lease, in addition to any amount by which "surplus revenues" would exceed $100,000. Ms. Moyer states that "surplus revenues" are anticipated beginning in Calendar Year 2014. Prior to that time, between Calendar Year 2004 and Calendar Year 2013, total base rent to be paid to the City by the MCCP is to be $1,000,000 over ten years, or $100,000 annually as shown in Attachment III, prepared by the MCCP and provided by Mr. Ellzey. According to Mr. Martin, the annual base rent of $100,000 to be paid to the City in the first ten years would be expended in accordance with the terms of

Proposition J. Mr. Michael Cohen of the City Attorney's Office advises that the proposed lease does not provide for any cost of living adjustments to the annual base rent. As discussed below, all unexpended MCCP funds will be transferred to the City on termination of the lease.

"Net Surplus Revenues" Payable to the City by the MCCP: 100 percent of net surplus revenues would be paid to the City by the MCCP, consisting of (a) the Music Concourse parking revenues and (b) interest earnings from philanthropic pledge donations, less operating and maintenance costs, debt service payments, and required reserves. As shown in Attachment III, these revenues, known as "Projected Net Surplus Contributions", projected to total $24,537,468, would be paid to the City by the MCCP, based on an estimated 30-year lease term. Ms. Moyer states that the "surplus revenues" to be paid to the City are expected to increase over the term of the lease as parking rates rise with inflation and reserves are fully funded. As stated in Attachment IV, provided by Mr. Ellzey, such funds are required to be appropriated by the Board of Supervisors in accordance with Proposition J for "(i) operation, maintenance, or repair of the Underground Parking Facility, (ii) the operation, maintenance or improvement of the surface area or the Concourse, (iii) operation, maintenance or construction of transit, shuttle and roadway improvements described in the feasibility and implementation plan, (iv) reconstruction and replacement of the Underground Parking Facility, (v) and any other expenditure in furtherance of the purposes of the Authority"

Projected Parking Taxes to be paid to the City over 30 years: $30,236,329 (see Comment No. 10) of which one half would accrue to the Municipal Railway Fund and one half would accrue to the City's General Fund.

Total Estimated Revenue to be Paid To the City over 30 years:

Total estimated revenues to be paid to the City, based on an estimated 30-year lease term, are $55,773,797 as shown in Attachment III, or an average of $1,859,127 annually, consisting of $1,000,000 in Base Rent, plus $24,537,468 in Net Surplus Revenues, and $30,236,329 in projected Parking Taxes. As stated in Attachment IV, $1,000,000 in Base Rent plus $24,537,468 in Net Surplus the Revenues would accrue to the City's General Fund to be appropriated by the Board of Supervisors for the underground parking facility and related Music Concourse area costs. As noted above, of the $30,236,329 in projected Parking Taxes, one half would be allocated to the Municipal Railway Fund and one half would be allocated to the City's General Fund.

Transportation Improvement Payments to the City:

Under Proposition J, Transportation Improvement Payments of $1,550,000 are to be paid by the MCCP to the City to fund a portion of the Transportation Implementation Plan (TIP) projects described above. According to Mr. Ellzey, $650,000 of the required $1,550,000 in transportation improvement payments has already been paid by the MCCP to the City between Calendar Year 2000 and 2002, and under the proposed lease, the MCCP would pay to the City the remaining $900,000 ($1,550,000 less $650,000) in Calendar Year 2003 and 2004, as described in Attachment I. According to Mr. Ellzey, the $650,000 in transportation improvement payments has been expended as shown in Attachment I.

Surface Improvement Payment to the City:

Under the proposed lease, a Surface Improvement payment of $1,530,000 would be paid to the City by the MCCP within 30 days after the Revenue Bonds are sold, for needed restoration and improvements to the surface area of the Music Concourse resulting from the construction of the Music Concourse Parking Garage.

Transfers to the City Upon Termination of Proposed Lease:

The Music Concourse Parking Garage and all related capital improvements, at an estimated value of $60,713,463, and the remaining cash balance from philanthropic pledges, estimated to be approximately $23,042,076 would be transferred to the City at the end of the proposed lease term.

Capital Improvements:

Capital improvements under the proposed lease would consist of the construction of the Music Concourse Parking Garage and its related tunnels and exhaust openings, as described in Attachment I. Attachment V, provided by Mr. Ellzey, contains a budget, including funding sources for the Music Concourse Parking Garage project totaling $60,713,463. MCCP will hold title to the Parking Garage over the term of the proposed lease, and upon expiration or other termination of the proposed lease, title to the Parking Garage would be transferred to the City.

Financing of the Music Concourse Parking Garage:

According to the GGPCA, the Music Concourse Parking Garage project, estimated to cost $60,713,463, would be paid for from 2004 Revenue Bonds to be issued by the MCCP in the beginning of 2004, in the amount of $53,375,000 and from philanthropic pledges in the amount of $7,338,463 (see Comment No. 3). Attachment VI, provided by Ms. Moyer, is a description of the sources of funds and the financing aspects of the Music Concourse Parking Garage project. The proceeds from the $53,375,000 in Revenue Bonds, Series 2004 would be used as shown in Attachment VII, provided by Ms. Moyer. Attachment VIII, provided by Ms. Moyer is the projected debt service schedule for the 2004 Revenue Bonds in the principal amount of $53,375,000, at estimated variable interest rates of between 1.54 percent to 3.04 percent.

Total debt service of $84,220,456 would include $53,375,000 in principal and $30,845,456 in interest over 30 years as shown in Attachment VIII. Ms. Moyer states that the debt service would be paid through parking revenues generated from the Parking Garage.

Description:

The subject resolution would authorize the lease of 309,560 square feet of subterranean City-owned land to the Music Concourse Community Partnership, a nonprofit public benefit organization, which was created to fund, design, construct and operate the subject Music Concourse Parking Garage, an underground garage consisting of two two-level structures that would accommodate approximately 800 vehicles, according to the GGPCA. The Music Concourse Parking Garage, would be operated as a public garage for the parking of automobiles, vans, light trucks, motorcycles and bicycles, and will contain two entrances (see below), driveways, pedestrian passageways, and operations offices. As previously noted, Attachment I provides a description of the Music Concourse Parking Garage.

The new Parking Garage, which would consist of two two-level parking structures, would have one parking structure located beneath Tea Garden Drive between the new de Young Museum Building and the Music Concourse Area; the second parking structure would be located beneath Music Concourse Drive between the Academy of Sciences Building and the Music Concourse Area. The two parking structures would be connected by an underground tunnel at the east end of the Music Concourse Area. One auto entrance and exit to the parking structure would be located on Fulton Street via a tunnel at Tenth Avenue under John F. Kennedy Drive; A second auto entrance would be located at Martin Luther King Drive via a ramp down at the west end of Academy Drive. According to the GGPCA, the Parking Garage's operating hours are expected to be 7:30 a.m. to 10 p.m. seven days per week.

Construction for the Music Concourse Parking Garage will take approximately 21 months to complete, according to the GGPCA, commencing in January of 2004 and ending in October of 2005. According to the GGPCA, the

Parking Garage would be constructed to coincide with the construction of the new deYoung Museum. According to Mr. Ellzey, the Parking Garage is expected to be partially operational accommodating 400 vehicles by the end of Calendar Year 2005, and to be fully operational accommodating 800 vehicles by Calendar Year 2008 to coincide with the opening of the new Academy of Sciences. Mr. Ellzey states that the Parking Garage may be fully operational accommodating up to 800 vehicles prior to Calendar Year 2008 if it is economically justifiable based on parking demand. Attachment IX, provided by the GGPCA, is the schedule of milestone performance dates for the construction of the Music Concourse Parking Garage. According to the GGPCA, Proposition J mandates that upon completion of the construction of the Parking Garage, all surface parking spaces currently located in and about the Music Concourse be permanently removed, thereby improving recreational use and scenic values of such portions of the Park.

03-1320 and 03-1321:
A Final Environmental Impact Report (FEIR) for the Golden Gate Park Concourse Authority Projects was approved by the Planning Commission on July 24, 2003, and affirmed by the Board of Supervisors at its FEIR appeal hearing on September 23, 2003 (File Nos. 03-1481 and 03-1449). Phase II, an Underground Through Street, is not included in the subject FEIR due to a lack of identified funding for the construction of the Underground Through Street and the significant environmental impact to the Rhododendron Dell which would result from the construction of the Underground Through Street. However, the FEIR does include Phase I, which includes the construction of the Music Concourse Parking Garage, the reconstruction and restoration of two pedestrian tunnels and portals, associated surface improvements, and the Transportation Implementation Plan Elements.

The FEIR, as affirmed by the Board of Supervisors and approved by the Planning Commission, requires various measures to mitigate significant effects on the environment, as shown in the summary of mitigation measures in Attachment X, provided by the GGPCA. Such mitigation measures fall within the categories of

transportation (traffic control), noise, air quality, geology/topography, water quality, hazards, and cultural resources. According to Ms. Moyer, these mitigation measures would be entirely paid for by the MCCP using funds from the 2004 Revenue Bonds and the philanthropic pledges, at a total estimated cost of between $85,000 and $212,000.

The proposed resolution (File 03-1321) would (a) adopt environmental findings pursuant to the California Environmental Quality Act (CEQA), State Guidelines, and Administrative Code Chapter 31, and (b) adopt General Plan and Planning Code Section 101.1 findings in connection with the Golden Gate Park Concourse Authority Projects.

The proposed ordinance (File 03-1320) would make environmental findings and amend the San Francisco Parking Code by adding Section 12.35 to establish parking rates for the proposed Music Concourse Parking Garage. The parking rates under the proposed ordinance are as follows:

Weekdays	
Each Hour	$2.50
Maximum for 24 hours	18.00
Weekends	
Each Hour	3.00
Maximum for 24 hours	22.00
Flat Rate After 6:00 p.m. through 10:00 p.m.	10.00
Monthly	$125.00

According to Mr. Ellzey, the parking rates would be effective when the Parking Garage is anticipated to open in Calendar Year 2005. Future parking rate changes would be subject to Board of Supervisors approval (see Comment No. 9)

Comments:

03-1319:

1. As noted above, under the proposed lease, the Music Concourse Parking Garage, which according to Mr. Ellzey has an estimated total value of $60,713,463, would be transferred to the City upon termination of the proposed lease. The proposed lease states that,

> Upon the expiration or earlier termination of the Term of this Lease, title to Improvements, any Alterations and any of Tenant's Personal Property which Landlord permits Tenant to leave on the Premises shall be deemed to be and, without further act or conveyance on the part of Tenant or Landlord, become part of the Premises and the sole and absolute property of Landlord as of the expiration or termination of the Lease without payment therefor by the Landlord and shall be surrendered to Landlord at that time, free and clear of the liens of deeds of trust, mechanic's liens and materialmen's liens, but subject to the Bond Documents unless all indebtedness and all other amounts due under the Bond Documents or any of them shall have been paid or provision for their payment shall have been made in accordance with the Bond Documents. Upon or at any time after the date of termination of this Lease, if requested by Landlord, Tenant shall promptly deliver to Landlord, without charge a quitclaim deed to the Premises, the Improvements and any Alterations suitable for recordation.

According to Mr. Martin, under the proposed lease, all remaining cash balances from philanthropic pledges including reserve amounts held by the MCCP would also be transferred to the City at the end of the lease term, after making provision for payment of all indebtedness and any other amounts due under the Bond Documents, if any. According to Attachment IV, Mr. Ellzey estimates that approximately $23,042,076 in philanthropic pledge funds would be transferred to the City's General Fund in 2033. As stated in Attachment IV, such funds are to be appropriated by the Board of Supervisors in accordance with Proposition J for "(i) operation, maintenance, or repair of the Underground Parking Facility, (ii) the operation, maintenance or improvement of the surface area or the Concourse, (iii) operation, maintenance or construction of transit, shuttle and roadway

improvements described in the feasibility and implementation plan, (iv) reconstruction and replacement of the Underground Parking Facility, (v) and any other expenditure in furtherance of the purposes of the Authority", when the proposed lease expires in Calendar Year 2033, or earlier.

2. As previously noted, under the proposed lease, if the City determines that the MCCP has sufficient available funds to repay all of the outstanding 2004 Revenue Bonds, the City has the right to terminate the proposed lease. As stated in the proposed lease, "Landlord shall have the option to terminate this Lease upon notice to the Tenant, the Indenture Trustee and the Credit Facility Provider at any time when Tenant has available assets in amounts sufficient, when combined with amounts available for such purpose under the Bond Documents and amounts on deposit in the Probable Maximum Loss Reserve Account, to refund or defease the Bonds in full in accordance with the Bond Documents." Ms. Moyer states that such an event could occur in either Calendar Year 2026 or 2027, in which case, the Parking Garage and unused fund balances would be transferred to the City as explained in Comment No. 1.

3. As stated in Attachment IV, "MCCP estimates that approximately $7,338,463 of the total $35,053,340 in philanthropic proceeds would be expended to pay for the Parking Garage project. The balance of the existing philanthropic proceeds plus the pledges that are collected would be retained in an endowment to be used to pay for Parking Garage operations and maintenance costs and to fund required reserves. Approximately $19.5 million of the $35,053,340 in philanthropic pledges have been received by the MCCP to date, and approximately $8,302,658 has been expended to date." Attachment IV shows how the $8,302,658 in philanthropic pledges have been spent to date including $6,101,137 for Preconstruction Costs and $2,133,821 for MCCP Management and Operations Costs.

4. According to Mr. Ellzey, the MCCP will contract with a parking garage operator to operate and manage the Music Concourse Parking Garage. The GGPCA reports that the

MCCP would issue a Request for Qualifications (RFQ) to select a parking garage operator by April of 2004. Provisions under the terms of the lease allow the MCCP to select the parking garage operator, which Mr. Cohen advises would not be subject to approval by the Board of Supervisors.

5. Ms. Moyer advises and Mr. Martin concurs that the City would not be responsible for any debt resulting from the 2004 Revenue Bonds to be issued by the MCCP. As stated in Attachment VI,

> The Bonds will be obligations of MCCP, and as such in no event shall the Lease or any of the Bonds create a debt of the City, and the City shall not be liable for payment of debt service or other obligations relating to the Bonds. MBIA Insurance Corporation ("MBIA") is expected to issue a municipal bond insurance policy insuring payment of principal and interest on the Bonds to investors. To facilitate that guarantee, the Lease allows MCCP to essentially pledge the MCCP's interest in the Lease as collateral for the Bonds. Simply put, if MCCP should default on its debt, MBIA (or the investors or bond trustee) would be able to step in and operate the Garage under the terms and conditions of the Lease, including using the revenues from such operation to repay the Bonds. In the unlikely event that MBIA and the bond trustee fail to exercise their cure rights under the Lease, control of the Garage and the leased premises would revert to the City at no cost and MBIA would have to pay off the investors.

6. According to Mr. Martin, the Music Concourse Parking Garage will be developed at the MCCP's sole cost and expense, and in no event will the City be required to pay any costs associated with the planning, design, development, or construction of the Parking Garage. The lease states,

> Tenant shall bear all of the cost of constructing or otherwise executing the Initial Improvements according to the Project Requirements...Tenant shall be responsible for performing all preparation work necessary for construction of the Initial

Improvements. Further, Tenant, at its sole cost and expense, shall arrange for the provision of all utilities to the Premises and shall construct all on-site utilities necessary to construct the Initial Improvements according to this Work Letter and to operate the Initial Improvements as required under the Lease. Landlord shall not have any responsibility for costs of construction of the Initial Improvements.

03-1320:

7. Based on a parking demand study and financial analysis conducted by the private consulting firm of Walker Parking Consultants, retained by the MCCP, projected revenues to be generated from parking rates are estimated at $365,787 in Calendar Year 2005 increasing to $721,787 in Calendar Year 2007, when the Parking Garage is partially open; projected revenues to be generated from the parking rates are estimated at $3,088,122 in Calendar Year 2008 increasing to $6,619,663 in Calendar Year 2033, when the Parking Garage is fully open, as shown in Attachment III.

8. According to Ms. Moyer, the initial parking rates were set at a level as determined by a demand study prepared by Walker Parking Consultants, a private firm retained by the MCCP. Ms. Moyer states that the parking revenues would be applied first towards the operation and maintenance of the Parking Garage, second towards debt service and third towards funding of required reserves. As noted previously, any net surplus parking revenues, projected to be $24,537,468 over an estimated 30-year lease term, as shown in Attachment III, would be paid by the MCCP to the City annually.

9. According to Mr. Cohen, any parking rate changes to the proposed parking rates included in File 03-1320 would be subject to subsequent approval by the Board of Supervisors. Mr. Cohen advises that if the MCCP requests and documents the need for parking rate changes in order to meet debt service requirements, the Board of Supervisors would be "obligated" under the proposed lease to adopt a new schedule of rates.

10. Parking Taxes are 25 percent of total gross parking revenues. Attachment III shows projected City Parking Tax receipts totaling $30,236,329, beginning at approximately $91,447 in 2005 and increasing to $1,654,916 in 2033 based on estimated parking revenues.

<u>03-1321:</u>

11. The proposed resolution states that on October 2, 2003, the Planning Commission reviewed and considered the GGPCA Projects, and found that the GGPCA Projects were consistent with the City's General Plan and the eight Priority Policies of City Planning Code Section 101.1.

In summary, approval of the proposed legislation would result in the following:

- The Music Concourse Parking Garage and all related capital improvements, at an estimated value of $60,713,463 would be transferred to the City at the end of the anticipated 30-year lease term.
- Any remaining cash balance from philanthropic pledges, estimated to be approximately $23,042,076 would be transferred to the City at the end of the proposed lease term.
- Annual Base Rent payments, estimated to be $1 million over the first ten years, would be paid to the City by the MCCP based on an estimated 30-year lease term.
- Net Surplus Revenues, projected to be approximately $24,537,468, would be paid to the City by the MCCP based on an estimated 30-year lease term.
- Transit improvement payments of $900,000 would be paid by the MCCP to the City in Calendar Year 2003 and Calendar Year 2004.
- A surface improvement payment of $1,530,000 would be paid by the MCCP to the City within 30 days after the MCCP Revenue Bonds are sold.
- Parking Tax receipts estimated at $30,236,329 would be realized by the City based on a 30-year lease term.

- According to Ms. Moyer and Mr. Martin, the City wound not be responsible for any debt resulting from the 2004 Revenue Bonds to be issued by the MCCP and the Music Concourse Parking Garage will be developed at the MCCP's sole cost, with no resulting costs to the City.

Recommendation: Based on the fact that the proposed legislation is consistent with the implementation of Proposition J, as previously approved by the voters in June of 1998, at no cost to the City, approve the proposed resolutions and ordinance.

Harvey M. Rose

cc: Supervisor Peskin
Supervisor Sandoval
Supervisor McGoldrick
Clerk of the Board
Controller
Ben Rosenfield
Ted Lakey

GOLDEN GATE PARK CONCOURSE AUTHORITY

Revitalizing Golden Gate Park

MEMORANDUM

To: Mr. Harvey Rose, Budget Analyst, CCSF

From: Michael D. Ellzey, Executive Director

Subject: Music Concourse Parking Garage Project

Date: October 28, 2003

In connection with the Budget Analyst Office's review of the Golden Gate Park Concourse Authority Projects, please accept this summary memo as an attachment to your report.

THE GOLDEN GATE PARK CONCOURSE AUTHORITY

The Golden Gate Park Concourse Authority is a public agency of the City and County of San Francisco, created as a 501c(3) public benefit corporation pursuant to the provisions of The Golden Gate Park Revitalization Act of 1998 (Proposition J). The Concourse Authority was established to implement the principal purposes and complete the specific projects of Proposition J.

The Authority convened its first public meeting in May 1999. All Authority board meetings, sponsored public meetings, workshops and study sessions are convened in accordance with the Ralph M. Brown Act and the San Francisco Sunshine Ordinance. Since inception, the Concourse Authority has convened more than 60 public meetings and received more than 1000 public comments on its project activities.

The Concourse Authority has seven (7) volunteer board members, all appointed by the Mayor. The Authority board includes representation from (1) the institutions in the Park; (2) the environmental community; (3) the neighborhoods adjacent to the Park; (4) an architect or engineer; (5) a parks advocate; and (6) two members at large. Board members serve staggered four-year terms. Its officers are elected annually.

Staff consists of an executive director and an executive assistant, both of whom are employees of the City and County of San Francisco. The executive director reports directly to the president of the Concourse Authority and is accountable to the Mayor.

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Proposition J further sets forth the expected interrelationship among the Authority, city departments and agencies, including the Recreation and Park Commission, the board of supervisors, and San Francisco city administration generally.

The Music Concourse Community Partnership (MCCP) was established in December 2001 as a private 501c(3) non-profit, public benefit corporation, for the purpose of financing, designing, constructing and operating the Underground Parking Facility. MCCP performs its mission – with the oversight of the Concourse Authority - in accordance with the provisions of Proposition J. MCCP will construct and operate the Underground Parking Facility pursuant to a negotiated ground lease with the City and County of San Francisco, acting by and through the Concourse Authority and the Recreation and Park Commission, as landlord.

Proposition J stipulates that the Underground Parking Facility, a defined term in the Act, must be constructed entirely with private funds; *no public funds may be expended for the construction of the Underground Parking Facility.* To complete this project in full conformance with Proposition J, MCCP was formed and acts essentially as owners' representative. MCCP is accountable during the Facility's project design, development, construction and operation to the City and County of San Francisco, through its agency, the Golden Gate Park Concourse Authority.

MCCP principals include Mr. George Hume, president of the board of directors, and four board members. Richard Young serves and president and chief executive officer; Greg Colley is the chief financial officer; and Debbie Rubin is vice president.

THE CAPITAL IMPROVEMENTS

The Underground Parking Facility

Proposition J stipulates that the Underground Parking Facility shall be:

(1) Constructed underground to include surface improvements;
(2) Situated in or near the Music Concourse area of Golden Gate Park;
(3) Not less than 800 nor more than 1000 parking spaces; and
(4) Designed with at least one dedicated parking entrance/exit, originating outside the Park.

The Concourse Authority and the Recreation and Park Commission have formally approved the final design for the parking facility and have determined that the project is in conformance with the Golden Gate Park Revitalization Act of 1998 (Proposition J).

As stated, the Underground Parking Facility planned for construction in the Music Concourse area in Golden Gate Park, will be funded exclusively with private funds and will be built entirely underground. The Concourse Authority has pursued a design which renders the Facility as "invisible" to Park patrons as practicable. Through an extensive design

development effort, with significant stakeholder input, areas where the Facility will intersect with the Park's surface have been limited to the extent practicable and feasible.

The Facility interfaces with the Park surface in four ways: (1) two vehicular entrances/exits (one at 10th Ave. and Fulton Street, and one entrance/exit at Music Concourse Drive at the western edge of the California Academy of Sciences); (2) two primary pedestrian entrances on axis to the Music Concourse bowl central fountain; (3) the portals (entrances/exits) to the southwest pedestrian tunnel, which will serve as a pathway into and through the facility, and will retain the subterranean connection between the Music Concourse area and the Shakespeare Garden; and (4) four emergency pedestrian exits.

The parking facility will be constructed to conform to a design that provides for two, two-level subterranean parking structures. One pod will be situated beneath the roadway and forecourt in front of the de Young Museum. The "northern" pod will have approximately 400 parking spaces and will provide for direct underground access to the de Young Museum. The second, or "southern" pod, will also have approximately 400 spaces, and will be constructed beneath the roadway and forecourt of the California Academy of Sciences. The southern structure will have an elevator, which provides access to the CAS forecourt.

The Underground Parking Facility will also include a dedicated underground entrance/exit, which originates from outside the Park at 10th Avenue and Fulton Street, continues beneath JFK Drive and connects with the northern pod, on the de Young side of the Concourse. A "connector" tunnel, which runs along the eastern edge of the Music Concourse bowl, will provide subterranean access between the two parking pods.

Finally, there will be a second entrance/exit to the Facility constructed at the western edge of the California Academy of Sciences on Music Concourse Drive, east of MLK Drive. This entrance/exit has been designed to allow access to the Facility to automobiles entering the Park from the south, or automobiles that choose to visit the Concourse that are already inside the Park. It is the Authority's opinion that this second entrance/exit will alleviate traffic congestion and reduce the impact of automobiles on the Park and surrounding neighborhoods, particularly the neighborhoods north of Golden Gate Park.

The balance of funds for the surface improvements (the difference between the "associated surface improvements," for which MCCP is responsible, and "Project #2" improvements described above), will come from Prop 40 funds (2002 Resources Bond Act, passed in March of 2002) from the State of California. $35 million of Prop 40 funds are designated in the bill language for Golden Gate Park. The Recreation and Park Department has earmarked $7.05 million of these funds for surface improvements. The Recreation and Park Department has received a grant letter from the California State Resources Agency for these funds.

The Board of Supervisors will be asked to pass an "accept and expend" resolution for these grant funds shortly. Funds in the amount of $450,000 from Prop 12 (passed in March of

2000) have already been made available for design of the surface improvements. The project funds from Prop 12 and 40 will be combined with the "associated surface improvements" payment from MCCP, as described earlier, to complete the project.

Transportation Improvement Plan (TIP)

Section 8 of Proposition J provides that the Concourse Authority will complete a Transportation Feasibility Study and will develop plans annually under a Transportation Improvement Plan (TIP) for implementation of transportation improvements that the Authority considers feasible.

The Feasibility Study was completed in 2001. The TIP planning and implementation efforts are ongoing.

Section 8 also provides for a series of contributions from the Authority's private partner, MCCP, to help fund the TIP. As stipulated in Section 8, MCCP contributed $150,000 in 2000; $200,000 in 2001; and $300,000 in 2002. Pursuant to Section 8, and as provided in Section 6.2 of the Lease Agreement between MCCP and the City, MCCP is obligated to pay the Authority $400,000 in 2003 and a final payment of $500,000 in 2004. The total of the TIP payments made to the Authority under Section 8 will be $1,550,000.

Under the TIP, extensive planning for transportation improvements is underway. $650,000* has been contributed to date and expended on the following program components:

(1) ***Intra-Park Shuttle*** *($283,317)* -Golden Gate Park FREE Shuttle, which is in its third pilot season, operates May through October, and carries an average of more than 1000 Park visitors per operating day;

(2) ***Bicycle Improvements*** *($71,999)* - a bicycle implementation plan, which includes a Concourse Authority-funded Bicycle Improvements Study completed by the S.F Bicycle Coalition and received Concourse Authority approval on October 14th;

(3) ***Traffic Calming Programs*** *($92,912)* - a conceptual "traffic calming" study and plan, which will provide for a road-sharing program on JFK Drive, between Stanyan Street and Crossover Drive;

(4) ***MUNI improvements*** *($25,477)* - Improvements in public transit ridership and service to the Park include co-marketing efforts to increase MUNI ridership to Golden Gate Park, improve the connections between MUNI stops outside the Park and the Golden Gate Park Shuttle and evaluate overall service improvement opportunities to the Park;

(5) ***Pedestrian improvements*** – *($17,800)* - Pedestrian-friendly improvements include narrowing of roadways, slowing of traffic, pedestrian access development and

improvement, the addition of a number of improved pedestrian crossings and markings, and the general reduction of conflicts between the pedestrian and automobiles;

(6) ***Cultural shuttle ($40,000)*** - in conceptual analysis, which will provide for connection between major downtown attractions and transportation hubs and Golden Gate Park;

(7) ***Parking Management ($65,773)*** - a parking management plan for the Park, will be implemented beginning in 2004, and is expected to reduce commuter use of the Park for parking and generally improve parking conditions in the Park.

(8) ***Road Closures ($21,075)*** – coordinate with Recreation & Park Department and DPT to study the impacts of permanent, periodic, and/or temporary road closures in Golden Gate Park.

(9) ***Program Contingency ($31,647)**** - unexpended TIP contributions (Third Plan Year)

** Aggregate TIP expenditures through the third TIP Plan Year are estimates. The Third Plan Year (2002-2003) will conclude October 31, 2003, and TIP program expenditures will be reconciled by November 30th.*

The TIP is diverse in its programs. However, the TIP generally, and each project within the TIP specifically, is designed to reduce the impact of automobiles in the Park, while assuring safe, reliable and convenient access to the Park for all Park visitors.

Though MCCP will provide $1,550,000 over five years as seed money for planning and limited implementation efforts, a full implementation of the TIP will require additional funds. Based on funding availability - which the Authority expects could come from clean air grants, transportation/pedestrian improvement grants, or other appropriate sources of funds - the Authority expects the TIP to be substantially completed within approximately 10 years.

Under its Proposition J responsibilities, the Concourse Authority will continually monitor implementation efforts under the TIP, and will continue to seek improvements to the transportation and parking management plan for Golden Gate Park over the long term.

CONCLUSION

The ground lease of subterranean land between the City and County of San Francisco, will facilitate the privately financed construction of an Underground Parking Facility in the Music Concourse area of Golden Gate Park, as stipulated in the Golden Gate Park Revitalization Act of 1998 (Proposition J). At the conclusion of this lease, the Underground Parking Facility and

any remaining assets of MCCP will revert in the form of a gift to the City and County of San Francisco.

In addition, a total of $1.55 million of private funds will be expended pursuant to Section 8 of the Act for planning work and limited implementation of a Transportation Improvement Plan (TIP), as described above. Through plan year 2003, $650,000 has been set aside for TIP purposes. The ground lease provides that the balance of $900,000 will be set aside and expended in accordance with Section 8.

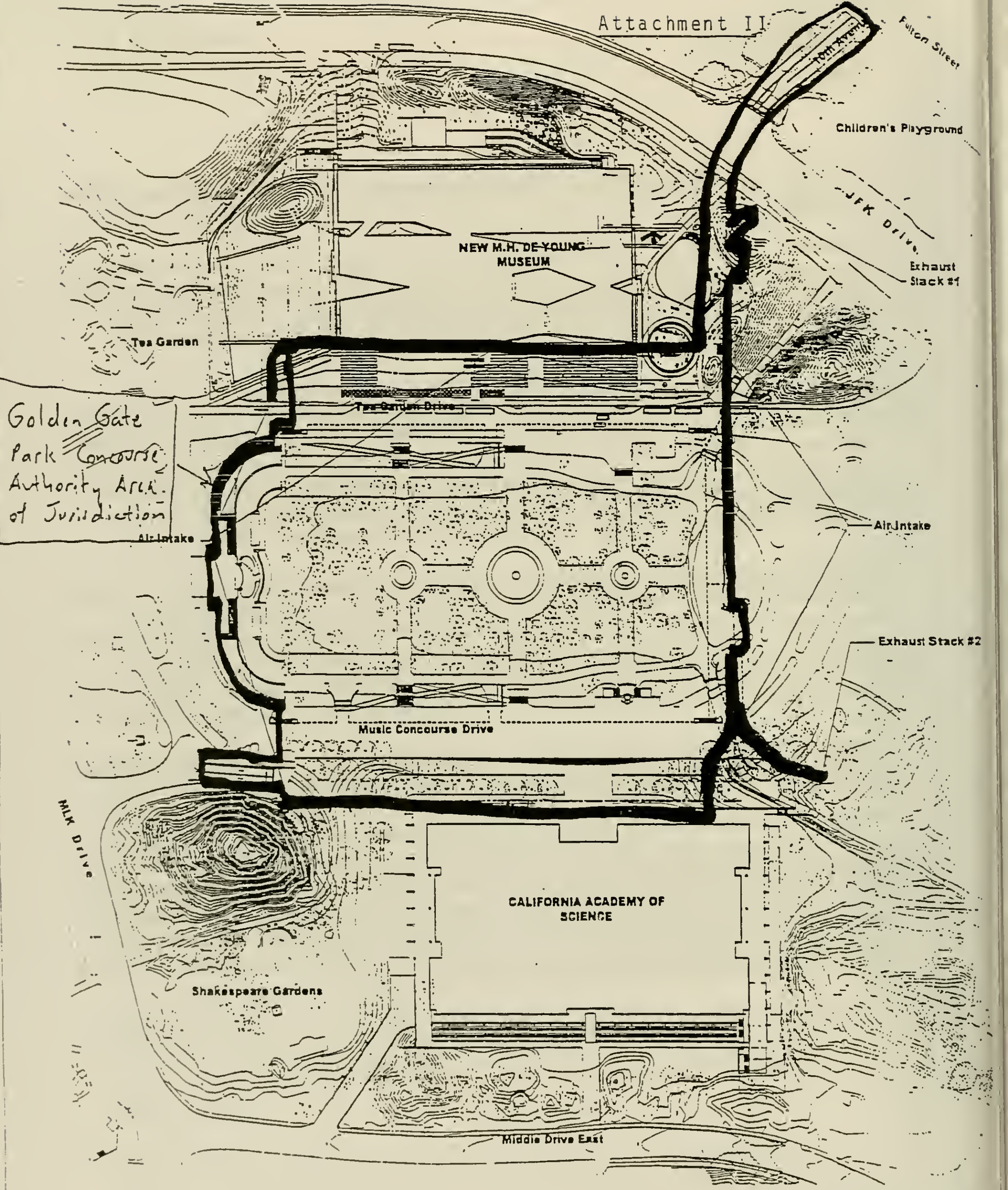
The Concourse Authority projects have been the subject of an exhaustive public participation and outreach process. The process has resulted in a balanced approach to implementing the letter and spirit of Proposition J, which was approved in 1998 by 58% of San Francisco voters. The Authority has overseen the design of a privately financed, Park-friendly underground parking structure, which will have minimal impact to the surface of the Music Concourse surface, and no detrimental impact to the Music Concourse bowl itself.

Through a unique design, a dedicated entrance and exit will receive automobiles from outside the Park at 10th Avenue and Fulton Street. Due to a network of connecting tunnels and underground parking pods, once the structure is accessed by vehicle from this entrance – which originates from outside the Park – the automobile will not be seen on the surface by Park patrons. In addition, all surface parking in the Music Concourse area will be eliminated – no parked cars will be allowed on the surface once the parking facility is opened for operation.

These are examples of a "community-based" project design that provides easy access to Park institutions, while making the automobile increasingly less visible.

The Music Concourse Parking Garage is a major component in a comprehensive public/private capital and transportation improvement program designed to restore Golden Gate Park as an internationally renowned urban space. The Concourse Authority projects - the underground garage, together with a number of capital, transportation, traffic and parking improvements to be completed under Proposition J and the Golden Gate Park Master Plan - represent a significant step toward realizing the will of San Francisco residents and the restoration of the urban retreat and unparalleled splendor that is Golden Gate Park.

Attachment II



SITE VENTILATION PLAN

UNDERGROUND PARKING STRUCTURE

GORDON H CHONG & Partners | GOLDEN GATE PARK CONCOU

June 3rd 2003

Cash Flows During Lease Term

Year	Date	Projected Operating Revenue	Projected City Parking Tax	MCCP Base Rent	Projected Net Surplus Contributions	Revenues to to City	Cumulative Amount
1	2003						
2	2004			$100,000		$100,000	
3	2005	$365,787	$91,447	$100,000		$191,447	
4	2006	$672,175	$168,044	$100,000		$268,044	$459,491
5	2007	$721,787	$180,447	$100,000		$280,447	$739,937
6	2008	$3,088,122	$772,031	$100,000		$872,031	$1,611,968
7 .	2009	$3,088,122	$772,031	$100,000		$872,031	$2,483,998
8	2010	$3,088,122	$772,031	$100,000		$872,031	$3,356,029
9	2011	$3,396,934	$849,234	$100,000		$949,234	$4,305,262
10	2012	$3,396,934	$849,234	$100,000		$949,234	$5,254,496
11	2013	$3,396,934	$849,234	$100,000		$949,234	$6,203,729
12	2014	$3,736,627	$934,157	$0	$659,002	$1,593,159	$7,796,888
13	2015	$3,736,627	$934,157	$0	$733,218	$1,667,375	$9,464,263
14	2016	$3,736,627	$934,157	$0	$733,218	$1,667,375	$11,131,638
15	2017	$4,110,290	$1,027,573	$0	$733,218	$1,760,791	$12,892,428
16	2018	$4,110,290	$1,027,573	$0	$733,218	$1,760,791	$14,653,219
17	2019	$4,110,290	$1,027,573	$0	$733,218	$1,760,791	$16,414,009
18	2020	$4,521,319	$1,130,330	$0	$733,218	$1,863,548	$18,277,557
19	2021	$4,521,319	$1,130,330	$0	$733,218	$1,863,548	$20,141,105
20	2022	$4,521,319	$1,130,330	$0	$733,218	$1,863,548	$22,004,652
21	2023	$4,973,451	$1,243,363	$0	$733,218	$1,976,581	$23,981,233
22	2024	$4,973,451	$1,243,363	$0	$733,218	$1,976,581	$25,957,814
23	2025	$4,973,451	$1,243,363	$0	$733,218	$1,976,581	$27,934,395
24	2026	$5,470,796	$1,367,699	$0	$1,008,021	$2,375,720	$30,310,115
25	2027	$5,470,796	$1,367,699	$0	$960,548	$2,328,247	$32,638,362
26	2028	$5,470,796	$1,367,699	$0	$913,801	$2,281,500	$34,919,862
27	2029	$6,017,875	$1,504,469	$0	$1,403,201	$2,907,670	$37,827,531
28	2030	$6,017,875	$1,504,469	$0	$1,354,138	$2,858,607	$40,686,138
29	2031	$6,017,875	$1,504,469	$0	$1,288,950	$2,793,419	$43,479,557
30	2032	$6,619,663	$1,654,916	$0	$4,044,755	$5,699,671	$49,179,228
31	2033	$6,619,663	$1,654,916	$0	$4,839,654	$6,494,570	$55,673,797
Totals		$120,945,317	$30,236,329	$1,000,000	$24,537,468	$55,773,797	
Annual Average (over 30 years 2004-2033)							$1,859,127

$30,236,329	Parking Tax Receipts	$1,042,632	(Annual average - 2005 - 2033)
$25,537,468	Payments of Base Rent and Surplus	$851,249	(Annual average - 2004 - 2033)
$23,042,076	Donor funds remaining at the end of the term (2033)		
$60,713,464	Parking Facility overall development value		

Prepared by: Music Concourse Community Partnership
Sources: Walker Parking Consultants - Parking demand and financial analysis update, dated 4/16/03
Citigroup Global Markets Inc. Revenue Bonds Analysis dated 9/12/03

GOLDEN GATE PARK
CONCOURSE AUTHORITY

Revitalizing Golden Gate Park

To: Mr. Harvey Rose, Budget Analyst

From: Michael Ellzey, Executive Director

Subject: Golden Gate Park Concourse Authority Projects

Date: October 30, 2003

In connection with the Budget Analyst's review of the Golden Gate Park Concourse Authority Projects, described below are certain particulars relating to the expected source and flow of funds from the Music Concourse Parking Garage, together with the provisions in Proposition J which stipulate the purposes for which such funds must be expended.

According to the City Attorney's Office, pursuant to the terms of the Lease, all remaining cash balances from philanthropic pledges and reserve amounts held by MCCP (after making provision for payment of all indebtedness and any other amounts due under the Bond Documents, if any) would be transferred to the City at the end of the lease term. According to a financial model provided by MCCP, it is estimated that approximately $23,042,076 in philanthropic funds and reserves, would be transferred to the City's General Fund in 2033.

According to the City Attorney's Office, Proposition J provides that such monies would be required to be appropriated for the following purposes: (i) operation, maintenance, or repair of the Underground Parking Facility, (ii) the operation, maintenance or improvement of the surface area of the Concourse, (iii) the operation, maintenance or construction of transit, shuttle and roadway improvements described in the feasibility and implementation plan described in Proposition J, (iv) reconstruction and replacement of the Underground Parking Facility, (v) any other expenditure in furtherance of the purposes of the Authority.

The City Attorney's Office advises that Proposition J requires that the $1 million in total annual rent and the $24,537,468 in projected net surplus revenues be expended pursuant to Proposition J as described above. These payments to the City would accrue to the City's General Fund to be expended in accordance with Proposition J. Unless otherwise provided for, the $30,236,329 in projected parking tax would be appropriated along with other parking tax revenues of the City.

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MCCP estimates that approximately $7,338,463 of the total $35,053,340 in philanthropic proceeds would be expended to pay for the Parking Garage project. The balance of the existing philanthropic proceeds plus the pledges that are collected would be retained in an endowment to be used to pay for Parking Garage operations and maintenance costs and to fund required reserves. According to information provided by MCCP, approximately $19.5 million of the $35,053,340 in philanthropic pledges have been received by the MCCP to date, and approximately $8,302,658 has been expended to date as follows:

MCCP Project Expenditures to date

MCCP Management and Operations		
Administration	$	443,565
Professional Fees	$	329,497
Development	$	240,350
Grants, including Section 8	$	1,120,410
sub-total	$	2,133,821
Preconstruction Costs		
Direct: Design, EIR, project management	$	4,427,970
Indirect: Professional, financing, public costs	$	1,673,167
sub-total	$	6,101,137
Construction	$	67,700
Total	$	8,302,658

Overall Development Budget Estimate

Construction Budget	Based on Bids of 4/22/03 & 5/29/03 Bid Analysis of 6/20/03		
HARD COST			
General Construction	31,971,948		
Construction Contingency	1,598,600		
Surface Improvements	1,530,000		
Delayed Start (Jan 2004)	340,000		
Start-up	65,000		
		35,505,548	70.96%
SOFT COST			
Design Services	4,251,503		
MCCP Management/Consultants	1,500,000		
Surveys, Test, Printing & Advertising	1,171,486		
Agency Fees	532,071		
Development (fund raising)	605,324		
Legal	570,000		
Environmental Impact Report	700,000		
Community Outreach	775,000		
Secretary of State	845		
Accounting	313,026		
Contingency	1,212,120		
		11,631,375	23.25%
PROP J SECTION 8 - TRANSPORTATION IMPROVEMENTS		1,550,000	3.10%
CONCOURSE AUTHORITY		750,000	1.50%
PUBLIC PROJECTS COSTS (By-pass road / bus parking design services)		600,000	1.20%
TOTAL PROJECT COSTS		50,036,923	100.00%
FINANCING BUDGET ITEMS			
Cost of Issuance	350,000		
Underwriter's Discount	461,199		
Insurance Premium	2,494,290		
Deposit to Debt Service Reserve Fund	3,270,640		
Capitalized Interest Fund	2,900,981		
Bad Money Capitalized Interest	1,182,958		
Accrued Interest	16,472		
Contingency			
		10,676,540	
TOTAL DEVELOPMENT FINANCING REQUIREMENTS		60,713,463	

NOTES:
Based on SSB Financing Cost for $50 mm Total Project and adjusted for:
$53.375mm Par Variable Rate Insured Tax Exempt Bonds

Based on construction start of January 2004 and completion of October 2005.
To accelerate north pod for de Young Museum opening of July 2005, cost of approx. $1,104,000

MCCP Project Budget Line Item Explanations

Line Item	Brief Explanation
HARD COSTS	Direct costs of construction
General Construction	All direct costs of construction, including excavation, shoring, concrete, metals work, painting, utilities, general contractor's fees, etc.
Construction Contingency	Reserve for unanticipated construction costs
Surface Improvements	$1,530,000 per letter from Elizabeth Goldstein for surface restoration and improvements
Delayed Start (Jan 2004)	Cost associated with holding bid commitments to new start date in January 2004
Start-up	Costs associated with site mobilization
SOFT COSTS	Indirect costs of construction, MCCP administration
Design Services	Architectural services, including construction management
MCCP Management/Consultants	MCCP project management costs and similar construction costs from outside consultants, including peer review costs
Surveys, Test, Printing & Advertising	Technical site surveys, core testing, production of site maps
Agency Fees	Permits and similar approval fees
Development (fund raising)	Costs associated with securing pledges from donors
Legal	MCCP legal costs (corporate governance, lease and other contract negotiations, financing, etc.)
Environmental Impact Report	Costs associated with the production of the EIR and legal assistance during approval process
Community Outreach	Expenditures on behalf of GGPCA for community meetings and other Concourse programs
Secretary of State	Filing fees associated with routine corporate reporting
Accounting	Audit, financial management and internal contract negotiation fees
Contingency	Reserve for unanticipated project costs
NON-CONSTRUCTION PROJECT COSTS	
Prop J Section 8 - Transportation Improvements	Funds expended in support of objectives of Section 8 of Proposition J
Concourse Authority	Support for administrative expenses of GGPCA per letter agreement
Public Projects Costs	Research into design changes requested by GGPCA not directly related to garage (such as Sierra Club bypass idea)
FINANCE ITEMS	
Cost of Issuance	Underwriters fees and fees of other service providers related to underwriting
Underwriter's Discount	Additional underwriting compensation
Insurance Premium	Fees to be paid to MBIA for credit guarantees
Deposit to Debt Service Reserve Fund	Proceeds of bond issuance held in reserve for final debt payments
Capitalized Interest Fund	Proceeds of bond issuance to be used for initial debt service
Bad Money Capitalized Interest	Proceeds of bond issuance to be used for initial debt service
Accrued Interest	
Contingency	Reserve for unanticipated financing expenses

	Bond Proceeds	Donor Investment	Project Budget	Donor Funds Retained as Endowment	Total
Sources of Funds					
Series 2004 Bonds	53,375,000				53,375,000
MCCP Philanthropic Funds		7,338,463		27,714,877	35,053,340
	53,375,000	7,338,463	60,713,463	27,714,877	88,428,340

Questions from the Budget Analyst Office

Sources of Funds

1. **Provide a debt service schedule for the bonds. What is the estimated annual debt service obligation? How will it be funded? Give amount estimates.**

The bonds are expected to be issued by the ABAG Finance Authority for Nonprofit Corporations ("ABAG") on behalf of Music Concourse Community Partnership ("MCCP"), the nonprofit corporation charged with constructing and operating the underground parking garage (the "Garage") under the ground lease. Debt repayment will be funded by a combination of parking revenues from the Garage, while contributions from the investment earnings on philanthropic pledge program funds held by MCCP will be used for operating expenses.
See Attachment I (Sources and Uses of Bond Funds and Debt Service Schedule).

2. **In a memo, provide a detailed description of the organizational and financial structuring of the Project (very important). Include**

- **cost of the total project.**
- **sources and amount of funds to pay for the project.**
- **details of the bond issuance, dates, parties involved, purpose, etc.**
- **a statement that in no event shall the Lease or any of the Bonds create a debt of the City, and the City shall not be liable for payment of debt service or other obligations of the Bonds**
- **an explanation of what will occur if the MCCP defaults on the bonds.**
- **a list donors and amounts donated for all Philanthropic Funds.**
- **The goal of the organizational and financial structure. Why is this better than other alternatives?**
- **enumerate and explain ANY costs to the City.**

The City, acting through the Golden Gate Park Concourse Authority (the "Concourse Authority") and the Recreation and Park Commission, as landlord, will enter into a ground lease (the "Lease") with Music Concourse Community Partnership ("MCCP") in order to facilitate the financing and construction of an underground parking garage under the Golden Gate Park Music Concourse (the "Concourse") as contemplated by Proposition J, approved by the voters of the City in June 1998 ("Proposition J"). The Lease would create a leasehold interest for MCCP in the underground portion of the Concourse where the Garage is to be located.

MCCP will construct the Garage pursuant to the terms of a Work Letter Agreement between the City and MCCP, which will be attached as an exhibit to the Lease. To finance construction of the Garage, MCCP will borrow up to $60,000,000 in the form of tax-exempt bonds expected to be issued by the Association of Bay Area Governments ("ABAG"). To do so, MCCP will enter into a loan agreement with ABAG. The Bonds (through payments on the Loan Agreement) will be repaid by parking revenues of the Concourse Garage. The Construction budget for the Garage is estimated at $50 million (See Attachment III). The additional $10 million in Bond proceeds will fund interest costs during construction, pay costs of issuance, and fund certain reserves which are customary.

The Bonds are expected to be issued shortly after the Lease is approved and validated (probably early 2004), and will mature thirty years thereafter. The Bonds will be obligations of MCCP, and as such in no event shall the Lease or any of the Bonds create a debt of the City, and the City shall not be liable for payment of debt service or other obligations relating to the Bonds.

MBIA Insurance Corporation ("MBIA") is expected to issue a municipal bond insurance policy insuring payment of principal and interest on the Bonds to investors. To facilitate that guarantee, the Lease allows MCCP to essentially pledge the MCCP's interest in the Lease as collateral for the Bonds. Simply put, if MCCP should default on its debt, MBIA (or the investors or bond trustee) would be able to step in and operate the Garage under the terms and conditions of the Lease, including using the revenues from such operation to repay the Bonds. In the unlikely event that MBIA and the bond trustee fail to exercise their cure rights under the Lease, control of the Garage and the leased premises would revert to the City at no cost and MBIA would have to pay off the investors.

MCCP has the right under the Lease and the obligation under the bond insurance policy to petition the Board of Supervisors for an increase in parking rates by demonstrating that such an increase in rates is required in order for the parking revenues and MCCP charitable contributions to fund each year's budget including debt payments. While the City has no obligation to the bond payments, the City would be obligated under the Lease to raise the parking rates upon such documentation. This type of rate covenant is consistent with the City's other bond-financed garages.

MCCP will hold title to the improvements constituting the Garage and will operate the Garage under the oversight of the City for the duration of the Lease. The Lease term will extend to the earlier of (i) the retirement of the Bonds (30 years) or (ii) 35 years (even if Bonds are still outstanding), unless the Lease is otherwise terminated under rights granted to the City or due to default by MCCP. Upon expiration or other termination of the Lease, title to the improvements shall be transferred to the City along with all remaining cash balances from MCCP's philanthropic fundraising program and any reserves.

The goal of this financial and organizational structure is to allow for the construction of the Garage as a private work (and without public funds) in the most efficient manner possible, while still affording the City significant rights of control over the construction and operation of the Garage as well as certain terms of the debt. By leasing the premises to MCCP and facilitating the bond issuance, the City enables MCCP to leverage its charitable contributions to the greatest extent possible, with any excess revenues of the philanthropic pledge program being transferred to the City when the Lease terminates. In addition, after payment of debt service and costs of operating the garage, any annual "surplus" will also be transferred to the City.

Lease Participants

City and County of San Francisco through the Recreation and Park Commission and the Golden Gate Park Concourse Authority

Music Concourse Community Partnership

Financing Participants

ABAG Finance Authority for Nonprofit Corporations (expected to be Bond Issuer)
Music Concourse Community Partnership
Citigroup Global Markets, Inc.

Other Participants

MCCP Real Estate Counsel:	Ellman Burke Hoffman & Johnson
MCCP Counsel:	Latham & Watkins
Bond Counsel:	Hawkins Delafield & Wood
Citigroup Counsel:	Orrick, Herrington & Sutcliffe
Bond Insurer:	MBIA Assurance Corporation
Bond Trustee:	TBD

- **Compare the proposed rental rate to the fair market value for comparable space in the area (fair market value determined by the Real Estate Division).**

We believe the concept of fair market rent does not apply to this Lease for at least 2 reasons. First, because MCCP is a nonprofit, 100% of its revenues net of operation and maintenance costs, debt repayment and certain reserves, flow to the City. The only reason the City negotiated a base rent was to pay for certain administrative costs. Second, we are not sure how one would determine a fair market rent for parkland, and subterranean parkland at that.

Music Concourse Community Partnership
Revenue Bonds, Series 2003
Scenario A-Excess After $6.4 Million in Probable Maximum Loss Reserve Transferred to City.
$49.7 Million Construction Costs
Base Rent: $100,000 Per Year From Inception of Lease, With Credit for Surplus Paid
Analysis as of 09/12/03, Delivery September 16, 2003

Attachment VII

SOURCES AND USES OF FUNDS

SOURCES:		SERIES 2003 AUCTION RATE
Par		53,375,000.00
Less Net OID		
Production		53,375,000.00
Equity		0.00
Accrued Interest		0.00
Total Sources		53,375,000.00

USES:		
Deposit to Construction Fund		42,698,459.54
Costs of Issuance		350,000.00
Underwriters' Discount		461,198.75
Insurance Premium	2.250%	2,494,290.00
Deposit to DSRF		3,270,640.00
Capitalized Interest		2,900,981.06
Bad Money Capitalized Interest		1,182,958.18
Accrued Interest		0.00
Contingency		16,472.47
Total Uses		53,375,000.00

BOND INFORMATION	
Dated Date:	09/16/03
Settlement:	09/16/03
First Interest Payment:	02/01/04
First Principal Payment:	02/01/11
Last Principal Payment:	02/01/33
Arbitrage Yield:	3.2305%
TIC:	3.2933%
EIC:	3.3415%
NIC:	2.8914%
Average Life:	19.69

PROJECT FUND INFORMATION:	
Earnings Rate:	75 Basis Points Over Bond Rate
Average Life:	0.55

CAPITALIZED INTEREST INFORMATION:	
Earnings Rate:	75 Basis Points Over Bond Rate
Average Life:	1.66

DSRF INFORMATION:	
Earnings Rate:	4.6200%
Average Life:	21.01
Final Cash Flow:	02/01/33
MADS:	3,270,640.00
125% Avg Ann:	3,523,868.44
10% Bond Proceeds:	5,337,500.00
DSRF Sizing:	3,270,640.00

Note: Insurance is calculated using the Bond Buyers Revenue Index plus 50 basis points.

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Music Concourse Community Partnership
Revenue Bonds, Series 2003
Sceoario A-Excess After $6.4 Million in Probable Maximum Loss Reserve Transferred to City.
$49.7 Million Constructioo Costs
Base Rent: $100,000 Per Year From Inception of Lease, With Credit for Surplus Paid
Analysis as of 09/12/03, Delivery September 16, 2003

Attachment VIII

MCCP PROJECT DEBT SERVICE - AUCTION RATE REVENUE BONDS

Date	Principal	Interest Rate (1)	Price	Interest	Total Debt Service	Production	Annual Debt Service
09/16/03							
02/01/04		1.54%	100.000	308,240.63	308,240.63		308,240.63
08/01/04		2.04%	100.000	544,425.00	544,425.00		
02/01/05		2.04%	100.000	544,425.00	544,425.00		1,088,850.00
08/01/05		2.54%	100.000	677,862.50	677,862.50		
02/01/06		2.54%	100.000	677,862.50	677,862.50		1,355,725.00
08/01/06		3.04%	100.000	811,300.00	811,300.00		
02/01/07		3.04%	100.000	811,300.00	811,300.00		1,622,600.00
08/01/07		3.04%	100.000	811,300.00	811,300.00		
02/01/08		3.04%	100.000	811,300.00	811,300.00		1,622,600.00
08/01/08		3.04%	100.000	811,300.00	811,300.00		
02/01/09		3.04%	100.000	811,300.00	811,300.00		1,622,600.00
08/01/09		3.04%	100.000	811,300.00	811,300.00		
02/01/10		3.04%	100.000	811,300.00	811,300.00		1,622,600.00
08/01/10		3.04%	100.000	811,300.00	811,300.00		
02/01/11	1,625,000	3.04%	100.000	811,300.00	2,436,300.00	1,625,000.00	3,247,600.00
08/01/11		3.04%	100.000	786,600.00	786,600.00		
02/01/12	1,675,000	3.04%	100.000	786,600.00	2,461,600.00	1,675,000.00	3,248,200.00
08/01/12		3.04%	100.000	761,140.00	761,140.00		
02/01/13	1,725,000	3.04%	100.000	761,140.00	2,486,140.00	1,725,000.00	3,247,280.00
08/01/13		3.04%	100.000	734,920.00	734,920.00		
02/01/14	1,800,000	3.04%	100.000	734,920.00	2,534,920.00	1,800,000.00	3,269,840.00
08/01/14		3.04%	100.000	707,560.00	707,560.00		
02/01/15	1,850,000	3.04%	100.000	707,560.00	2,557,560.00	1,850,000.00	3,265,120.00
08/01/15		3.04%	100.000	679,440.00	679,440.00		
02/01/16	1,900,000	3.04%	100.000	679,440.00	2,579,440.00	1,900,000.00	3,258,880.00
08/01/16		3.04%	100.000	650,560.00	650,560.00		
02/01/17	1,950,000	3.04%	100.000	650,560.00	2,600,560.00	1,950,000.00	3,251,120.00
08/01/17		3.04%	100.000	620,920.00	620,920.00		
02/01/18	2,025,000	3.04%	100.000	620,920.00	2,645,920.00	2,025,000.00	3,266,840.00
08/01/18		3.04%	100.000	590,140.00	590,140.00		
02/01/19	2,075,000	3.04%	100.000	590,140.00	2,665,140.00	2,075,000.00	3,255,280.00
08/01/19		3.04%	100.000	558,600.00	558,600.00		
02/01/20	2,150,000	3.04%	100.000	558,600.00	2,708,600.00	2,150,000.00	3,267,200.00
08/01/20		3.04%	100.000	525,920.00	525,920.00		
02/01/21	2,200,000	3.04%	100.000	525,920.00	2,725,920.00	2,200,000.00	3,251,840.00
08/01/21		3.04%	100.000	492,480.00	492,480.00		
02/01/22	2,275,000	3.04%	100.000	492,480.00	2,767,480.00	2,275,000.00	3,259,960.00
08/01/22		3.04%	100.000	457,900.00	457,900.00		
02/01/23	2,350,000	3.04%	100.000	457,900.00	2,807,900.00	2,350,000.00	3,265,800.00
08/01/23		3.04%	100.000	422,180.00	422,180.00		
02/01/24	2,425,000	3.04%	100.000	422,180.00	2,847,180.00	2,425,000.00	3,269,360.00
08/01/24		3.04%	100.000	385,320.00	385,320.00		
02/01/25	2,500,000	3.04%	100.000	385,320.00	2,885,320.00	2,500,000.00	3,270,640.00
08/01/25		3.04%	100.000	347,320.00	347,320.00		
02/01/26	2,575,000	3.04%	100.000	347,320.00	2,922,320.00	2,575,000.00	3,269,640.00
08/01/26		3.04%	100.000	308,180.00	308,180.00		
02/01/27	2,650,000	3.04%	100.000	308,180.00	2,958,180.00	2,650,000.00	3,266,360.00
08/01/27		3.04%	100.000	267,900.00	267,900.00		
02/01/28	2,725,000	3.04%	100.000	267,900.00	2,992,900.00	2,725,000.00	3,260,800.00
08/01/28		3.04%	100.000	226,480.00	226,480.00		
02/01/29	2,800,000	3.04%	100.000	226,480.00	3,026,480.00	2,800,000.00	3,252,960.00
08/01/29		3.04%	100.000	183,920.00	183,920.00		
02/01/30	2,900,000	3.04%	100.000	183,920.00	3,083,920.00	2,900,000.00	3,2[illegible],840.00
08/01/30		3.04%	100.000	139,840.00	139,840.00		
02/01/31	2,975,000	3.04%	100.000	139,840.00	3,114,840.00	2,975,000.00	3,254,680.00
08/01/31		3.04%	100.000	94,620.00	94,620.00		
02/01/32	3,075,000	3.04%	100.000	94,620.00	3,169,620.00	3,075,000.00	3,264,240.00
08/01/32		3.04%	100.000	47,880.00	47,880.00		
02/01/33	3,150,000	3.04%	100.000	47,880.00	3,197,880.00	3,150,000.00	3,245,760.00
08/01/33		3.04%	100.000				
02/01/34		3.04%	100.000				
08/01/34		3.04%	100.000				
02/01/35							
TOTALS	53,375,000			30,845,455.63	84,220,455.63	53,375,000.00	84,220,455.63

(1) Bonds are variable rate and interest rate shown above is for presentation purposes only. The actual rate is subject to market conditions and will vary. Rate is calculated as current (7/1/03) Bond Market Associaion (BMA) 1.04% plus 50 bps, increasing 50 bps. each year until is reaches current 10 year BMA average (3.04%).

Expected Annual Debt Service subject to interest rate assumptions

ATTACHMENT 3

Schedule of Performance

Work Letter Agreement dated ___________
Music Concourse Community Partnership ("MCCP")
Golden Gate Park Music Concourse Underground Parking Facility
Target Milestone Schedule Summary

Submit Construction Documents for permit review	June 30, 2003
Issuance of site permit/Addendum No. 1	November 12, 2003
(Excavation, demolition, shoring, waterproofing)	
Site mobilization	January 1, 2003
Issuance of Addendum No. 2 permit	January 5, 2004
(Foundations and partial structural)	
Issuance of Addendum No. 3 permit	January 30, 2004
(Balance of structural)	
Start shoring and excavation	February 5, 2004
Issuance of Addendum No. 4 permit	March 1, 2004
(Architecture, MPE, FP, and all remaining items)	
Start foundation and structure	March 12, 2004
Start interiors and buildout	July 14, 2004
Final construction inspections	June 1, 2005
Issue Partial Certificate of Occupancy*	June 15, 2005
Commence North Garage operations*	July 1, 2005
Issue Full Certificate of Occupancy	September 15, 2005
Commence South Garage operations	October 1, 2005

* If MCCP elects to pursue an acceleration of North Garage construction

Note: This schedule represents MCCP's best efforts to fast-track approvals and construction. In no event should it be construed to preclude the full allowances of time accorded to MCCP per the Lease and this Work Letter Agreement, should that time be necessary

The reasons why these alternatives were considered and rejected, and therefore not further analyzed in the FEIR, are set forth in the Alternatives Study, the FEIR and Article II.B, above and are incorporated herein by this reference. For the reasons stated above as well as the explanation in the FEIR, these alternatives are again rejected as infeasible.

Additional Alternatives.

Members of the public commented that the City should consider two (2) additional alternatives, the May 2001 Alternative 6 variant discussed in the Draft Summary of Comments and Responses at pages 282 to 296, and proposed "Alternative G", which would include an underground street through the Park under Middle Drive East and the Big Rec Ball Field to Seventh Avenue, discussed in the Draft Summary of Comments and Responses at pages 296 to 302. The reasons why these alternatives were rejected are set forth in the Draft Summary of Comments and Responses and elsewhere in the record before the Board, and are incorporated herein by this reference. For the reasons stated above as well as the explanation in the Draft Summary of Comments and Responses and elsewhere in the record before the Board, these alternatives are again rejected as infeasible.

V. MITIGATION MEASURES

A. Adoption of Mitigation Measures.

CEQA requires agencies to adopt mitigation measures that would avoid or substantially lessen a project's identified significant impacts or potential significant impacts if such measures are feasible. The mitigation measures summarized in this Section V, and more fully detailed in Exhibit 1 attached hereto, mitigate the potential significant impacts of the GGPCA Preferred Alternative. The Board has reviewed the mitigation measures presented in the FEIR in connection with its consideration of the Board Actions and the Preferred alternative. Responsibility for implementation and monitoring has been established pursuant to the Mitigation Monitoring and Reporting Program attached hereto as Exhibit 2.

The Board adopts all the mitigation measures as they appear in the FEIR and in the mitigation measures attached hereto as Exhibit 1 and incorporated herein by this reference. The Board finds that all of the mitigation measures in the FEIR and Exhibit 1 attached hereto, in whole or in part, fall within the jurisdiction of City agencies other than the Board. The Board determines that such measures can and should be adopted and carried out by such other agencies, as set forth in the Mitigation Monitoring and Reporting Program attached hereto as Exhibit 2. The Clerk of the Board is hereby directed to transmit copies of Exhibit 1 and Exhibit 2 to the affected City agencies.

A. Transportation.

1. Restripe the northbound approach to the intersection of Eighth/Fulton to provide a left-turn pocket (convert the existing left-through-right lane into a through-right lane) and create a westbound left-turn pocket.

2. Restripe the southbound approach to the intersection of Eighth/Kennedy to provide a left-turn pocket (convert the existing left-right lane into a right-turn only lane).

B. Noise.

1. The project contractor would use equipment and trucks with noise control in order to minimize construction noise impacts.

2. The project contractor would prohibit truck and heavy equipment operations during the nighttime hours (5:00 PM to 7:00 AM).

3. The project contractor would locate stationary construction noise sources, such as compressors, as far from adjacent residences as possible. If it were necessary to locate equipment near existing residences, they shall be enclosed within temporary sheds.

4. The project contractor would use hydraulically or electrically powered impact tools wherever possible to avoid noise associated with compressed air exhaust from pneumatically powered tools. However, where use of pneumatically powered tools is unavoidable, an exhaust muffler on the compressed air exhaust shall be used.

5. The project sponsor would require project construction contractor(s) to pre-drill piling holes to the maximum depth feasible and to limit pile driving activity to result in the least disturbance to neighbors.

C. Air Quality.

1. The project sponsor would require construction contractor(s) to comply with a dust abatement program that complies with BAAQMD recommendations to reduce the contribution of project construction to local PM10 concentrations.

2. The project sponsor would require that construction contractor(s) obtain reclaimed water from the Clean Water Program for dust control activities and to operate construction equipment so as to minimize exhaust emissions of particulates and other pollutants.

D. Geology / Topography.

1. The project sponsor and its contractors would follow the recommendations of the final geotechnical reports of one or more California-licensed geotechnical engineers.

2. If dewatering were necessary, the project sponsor and its contractor(s) would follow the geotechnical engineers' recommendations regarding dewatering.

3. The project sponsor and its contractor(s) would follow the geotechnical engineers' recommendations regarding installation of settlement markers around the perimeter of shoring to monitor any ground movements outside of the shoring itself.

E. Water Quality.

1. If dewatering were necessary, the project sponsor would follow the recommendations of the geotechnical engineer or environmental remediation consultant, in consultation with the Bureau of Environmental Regulation and Management of the Department of Public Works, regarding treatment, if any, of pumped groundwater prior to discharge to the combined sewer system.

2. The project sponsor would require the general contractor to install and maintain sediment traps in local storm water intakes during construction to reduce the amount of sediment entering the combined sewer system, if this were found to be necessary by the Bureau of Environmental Regulation and Management of the Department of Public Works.

F. Hazards.

1. In addition to local, state, and federal requirements for handling hazardous materials and soil and groundwater containing chemical contaminants, the project sponsor would enter into a voluntary remedial action agreement with the Department of Public Health pursuant to Health and Safety Code Sections 101480 et seq.

G. Cultural Resources.

1. Archaeological Resources.

The project sponsor would retain the services of a qualified archaeological consultant having expertise in California prehistoric and urban historical archeology to undertake an archaeological testing program prior to commencement of construction and to monitor construction, and would implement such additional measures as may be required during construction to avoid any potentially significant adverse effect from the proposed project on buried or submerged historical resources.

B. Adoption of Mitigation Monitoring and Reporting Program

The Board hereby adopts a Mitigation Monitoring and Reporting Program as required by Section 21081.6 of the California Public Resources Code. This Mitigation Monitoring and Reporting Program is attached hereto as Exhibit 2 and is incorporated herein by reference. The purpose of the Program is to determine the stage at which each of the mitigation measures must be imposed in order to ensure that the responsible official or entity carries out the measure and that the City enforces the obligation.

VI. SIGNIFICANT ENVIRONMENTAL IMPACTS

With the implementation of all of the mitigation measures outlined in Article V herein, the following environmental impacts resulting from the GGPCA Preferred Alternative, which impacts were identified as significant or potentially significant in the FEIR, would be reduced to a less-than-significant level as described in the FEIR

Reduction of the significant or potentially significant impacts discussed in the FEIR and listed below assume implementation by City agencies of the mitigation measures adopted or recommended for adoption herein. The Board has made a determination that these measures can and should be implemented by City agencies. In so determining, the Board has found that these measures are feasible and can be implemented through the approvals for the GGPCA Preferred Alternative. The FEIR provides a detailed analysis of the impacts and the effectiveness of these measures to reduce the impacts. Such analysis can be found in the DEIR on pages 193-207, as

discussed in the topical areas of analysis under the DEIR's Environmental Setting and Impact section, in the Initial Study, attached to the DEIR as Appendix A, and as discussed in this Article VI.

For the reasons set forth above, the Board finds that the mitigation measures set forth in Article V and incorporated into the GGPCA Preferred Alternative will eliminate or substantially lessen all significant or potentially significant effects of the GGPCA Preferred Alternative on the environment.

A. Transportation.

Under the Baseline plus Phase I conditions and the 2015 Cumulative conditions, the intersection of Fulton Street and Eighth Avenue would operate at unacceptable levels during the weekday PM peak hour. Under the 2015 Cumulative conditions, the intersection of Eighth Avenue and John F. Kennedy Drive would operate at unacceptable levels during the weekday PM peak hour. The GGPCA Preferred Alternative would contribute substantially to the total traffic growth at the intersection of Fulton Street and Eighth Avenue and the cumulative grown at both intersections. With mitigation, as described above, these impacts would be reduced to a less than significant level.

B. Noise.

Construction-related activities associated with the Underground Parking Facility would generate noise levels that could adversely affect the surrounding area. With mitigation, as described above, noise impacts from construction activities would be reduced to a less than significant level.

C. Air Quality.

Construction-related emissions from the GGPCA Preferred Alternative may cause adverse effects on local air quality by generating significant amounts of dust, including PM_{10} and other larger dust particles. In addition, exhaust emissions from construction equipment and vehicles, emitting ozone precursors and carbon monoxide, would occur during construction. With mitigation, as described above, fugitive dust and emissions impacts from construction activities would be reduced to less than significant levels.

D. Pedestrian Tunnels.

Three (3) tunnels currently provide pedestrian access into the Concourse Bowl below existing roadways. The GGPCA Preferred Alternative will reconstruct the northeast and southeast pedestrian tunnels and tunnel portals. The GGPCA Preferred Alternative will retain the southwest pedestrian tunnel route through the upper level of the Underground Parking Facility and reconstruct the southwest tunnel portals in their current locations. The FEIR concludes that the reconstruction of the pedestrian tunnels, as proposed, will not significantly impact a historic resource. This conclusion is based on the report by Page & Turnbull, Inc., historic architecture consultants, entitled Golden Gate Park Proposed Underground Parking Structure: Evaluation of the Potential Effect on Historical Resources, Golden Gate Park, San Francisco, dated December 13, 2002 (the "Page & Turnbull Report").

As the FEIR notes, the Page & Turnbull Report identifies the Concourse as a precinct in Golden Gate Park that appears to be eligible for listing in the California Register of Historic Resources. While the Page & Turnbull Report regards the pedestrian tunnels as character-defining features of the Music Concourse, it concludes that their reconstruction, as proposed, will not significantly impact the historic character of the Music Concourse. The San Francisco Landmarks Preservation Advisory Board disagrees, asserting that the pedestrian tunnels should be considered individual elements of architectural significance in the Music Concourse, and that reconstruction of the pedestrian tunnels, as proposed, and in particular the southwest tunnel, would significantly impact spatial relationships that characterize the Music Concourse vicinity.

This Board adopts the findings and conclusions set forth in the Page & Turnbull Report and the FEIR, particularly at pages 97 to 105 of the Draft Summary of Comments and Responses. Those findings and conclusions are incorporated herein by this reference. In summary: The historic resource in question is the Music Concourse, not the pedestrian tunnels. It is the Music Concourse that is potentially eligible for the California Register as a designed landscape. The overall character and significance of the Music Concourse Bowl is defined by the spatial organization, topography, vegetation, and circulation networks found in the assemblage of trees, turf lawns, pathways, stairs, pedestrian tunnels, fountains, and the Spreckels Temple of Music. With the GGPCA Preferred Alternative, most of these features would remain intact and the Music Concourse would retain historic integrity.

E. Other Impacts.

The Initial Study (DEIR Appendix A) determined that the potential effects of the GGPCA Preferred Alternative related to Geology/Topography, Water Quality, Hazards and Cultural Resources would either be insignificant or would be reduced to a less than significant level by mitigation measures included in the GGPCA Preferred Alternative and/or by regulatory requirements and procedures applicable to the GGPCA Preferred Alternative. These mitigation measures and regulatory requirements and procedures are included within the Mitigation Measures set forth in Article V, above.

VII. NO UNAVOIDABLE SIGNIFICANT ENVIRONMENTAL IMPACT

With implementation of the mitigation measures set forth in Article V above, the GGPCA Preferred Alternative will not have a significant effect on the environment.

VIII. EXHIBITS

Exhibit 1 sets forth the full text of all of the mitigation measures proposed in the FEIR. Exhibit 2 is the Mitigation Monitoring and Reporting Program that this Board adopts.

City and County of San Francisco

Meeting Agenda

Finance and Audits Committee

Members: Aaron Peskin, Gerardo Sandoval and Jake McGoldrick

Clerk: Linda Laws

Wednesday, November 19, 2003	**12:30 PM**	**City Hall, Room 263**

Regular Meeting

0.251
19/03

Note: Each item on the Consent or Regular agenda may include the following documents:
1) Legislation
2) Budget Analyst report
3) Legislative Analyst report
4) Department or Agency cover letter and/or report
5) Public correspondence
These items will be available for review at City Hall, Room 244, Reception Desk.

Each member of the public will be allotted the same maximum number of minutes to speak as set by the Chair at the beginning of each item, excluding City representatives, except that public speakers using translation assistance will be allowed to testify for twice the amount of the public testimony time limit. If simultaneous translation services are used, speakers will be governed by the public testimony time limit applied to speakers not requesting translation assistance.

AGENDA CHANGES

REGULAR AGENDA

1. 031643 **[License Agreement with Broadcast Music Incorporated]**

Ordinance authorizing the City Administrator to enter into the Local Government Licensing Agreement negotiated between the International Municipal Lawyer's Association and Broadcast Music Incorporated to license music uses by the City under a license subject to automatic annual renewal for an annual Base License Fee plus 1% of revenue from events in which gross revenue exceeds $25,000, providing that prior to the issuance by any City Department of agency of any lease or permit to conduct an event on property owned or operated by the City and County of San Francisco at which music will be used, the leasee or permittee shall obtain an appropriate license from Broadcast Music Incorporated for the use of music at the event, and requiring that if an appropriate license for the use of music at the event is not obtained by the leasee or permittee, the City department or agency issuing the lease or permit shall provide funds to the City Admninistrator sufficient to cover any fees incurred pursuant to the City's Local Government Licensing Agreement with Broadcast Music Incorporated. (City Administrator)

(No Public Benefit Recipient.)

9/29/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

10/22/03, CONTINUED. Heard in Committee. Speakers: William Lee, City Administrator; Ted Lakey and Sara Ellen Owsowitz, Deputy City Attorneys.
Continued to 10/29/03.

10/29/03, CONTINUED. Heard in Committee. Speaker: Bill Lee, City Administrator; Sarah Owsowitz, Deputy City Attorney; Ed Harrington, Controller.

Continued to November 5, 2003.

11/5/03, AMENDED, AN AMENDMENT OF THE WHOLE BEARING NEW TITLE. Heard in Committee. Speaker: William Lee, City Administrator.
Continued to 11/19/03.

11/5/03, CONTINUED AS AMENDED.

2. 031710 **[Airport Concession Leases]**

Supervisor McGoldrick

Resolution approving the twenty-eight (28) leases for the Airport's Domestic Terminal Food and Beverage Redevelopment Program - between Lori's Diner International, Inc.; Andale SFO; Sanraku, Inc.; Meyers Holdings, LLC, Firewood Café, Series I-II; Fung Lum Express, LLC; Bayport Concessions, LLC; Bay Area Restaurant Group Joint Venture; GDDC, Inc.; Tomokazu Japanese Cuisine (SFO), Inc.; (Jonathan Leong) L & H, LLC; H. Young Enterprises, Inc.; WSE Group; San Francisco Soup Co., Inc.; Guava & Java (SFO), Inc.; J. Avery Enterprises; Gotham Enterprises, LLC, SFO Coffee IV-VI Series; H. Young Enterprises; Susie Lee Tong Enterprises, Inc.; Lady Luck Gourmet, LLC; Creative Host Services, Inc.; D-Lew Enterprises, LLC; Burger Joint, Inc.; Creative Host Services, Inc.; Emporio Rulli, Inc.; Bay Area Restaurant Group Joint Venture; D-Lew Enterprises, LLC; Bay Area Restaurant Group Joint Venture; Andre-Boudin Bakeries, Inc., each as a tenant, and the City and County of San Francisco, acting by and through its Airport Commission, as landlord.

(Fiscal impact.)

10/7/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

3. 031466 **[Creating Exemption for Administrative Fee for Provision of Additional Police Services Pursuant to Administrative Code Section 10B.2.]**

Supervisor Peskin

Ordinance amending San Francisco Police Code Section 10B.2 to create an exception for payment of an administrative fee for contracting for additional police services.

8/19/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

4. 031703 **[Joint Use Cooperative Agreements between the S.F. Public Library and the SFUSD]**
Supervisor Ammiano
Resolution approving the Joint Use Cooperative Agreements between the San Francisco Public Library and the San Francisco Unified School District for the purpose of Proposition 14 grant applications to construct the Ingleside, Portola, Visitacion Valley, and Ortega branch libraries.

10/7/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

5. 031340 **[Reserved Funds, Department of Public Works]**
Hearing to consider release of reserved TEA21 Demonstration Funds, Department of Public Works (File No. 021647, Resolution No. 773-02), in the amount $2,750,216 to complete the environmental studies related to a bridge or surface roadway linking Hunters Point Shipyard to U.S. Highway 101. (Public Works Department)

7/28/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

6. 031249 **[Cruise Terminal at Piers 30-32]**
Supervisor Sandoval
Hearing regarding the fiscal implications and budgetary constraints of establishing shore side power hook-ups and alternative fuel technologies related to the cruise terminal at Piers 30-32.

7/15/03, RECEIVED AND ASSIGNED to Finance and Audits Committee. Sponsor requests this item be scheduled for consideration at the September 17, 2003 meeting.

LITIGATION

Conference with City Attorney

[Convene in Closed Session - Potential Litigation - City as Plaintiff and/or Defendant]
Motion that the Finance and Audits Committee of the Board of Supervisors convene in closed session with the City Attorney for the purpose of conferring with, or receiving advice from, the City Attorney regarding the following potential lawsuits and claims. Government Code 54956.9(a) and San Francisco Administrative Code Section Section 67.10(d) permit this closed session. Discussion in open session concerning these matters would likely and unavoidably prejudice the position of the City in the potential lawsuits and/or claims listed below.

7. 031696 **[Lease of Property]**
Resolution authorizing a 25-year Lease of San Francisco Public Utilities Land between the City and County of San Francisco and Sunol Valley Golf & Recreation Co., in Alameda County. (Public Utilities Commission)

(Fiscal impact; Public Benefit Recipient.)

10/1/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.
10/29/03, CONTINUED. Heard in Committee. Speakers: none

Continued to November 5, 2003.
11/5/03, CONTINUED. Heard in Committee Speakers: Garrett Dowd, SFPUC; Josh Milstein and Hazel Brandt, Deputy City Attorneys; Ken Bruce, Budget Analyst's Office, Harvey Rose, Budget Analyst; David Dornbusch, Dornbusch & Associates; Brian Richardson, Sunol Valley Golf & Recreation Company; Howard Strassner.
Continued to 11/19/03.

After a closed session, if one occurs, the Committee shall adopt a motion either to disclose or not to disclose.

[Elect To Disclose]
Motion that the Committee finds it is in the public interest to disclose information discussed in closed session, and directs the Chair immediately to disclose that information.

[Elect Not to Disclose]
Motion that the Committee finds that it is in the best interest of the public that the Committee elect at this time not to disclose its closed session deliberations concerning the anticipated litigation listed above.

ADJOURNMENT

IMPORTANT INFORMATION

NOTE: Persons unable to attend the meeting may submit to the City, by the time the proceedings begin, written comments regarding the agenda items above. These comments will be made a part of the official public record and shall be brought to the attention of the Board of Supervisors. Any written comments should be sent to: Committee Clerk of the Finance and Audits Committee, San Francisco Board of Supervisors, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102 by 5:00 p.m. on the day prior to the hearing. Comments which cannot be delivered to the committee clerk by that time may be taken directly to the hearing at the location above

LEGISLATION UNDER THE 30-DAY RULE

(Not to be considered at this meeting)

Rule 5.40 provides that when an ordinance or resolution is introduced which would CREATE OR REVISE MAJOR CITY POLICY, the committee to which the legislation is assigned shall not consider the legislation until at least thirty days after the date of introduction. The provisions of this rule shall not apply to the routine operations of the departments of the City or when a legal time limit controls the hearing timing. In general, the rule shall not apply to hearings to consider subject matter when no legislation has been presented, nor shall the rule apply to resolutions which simply URGE action to be taken.

There are no items now pending under the 30-day rule.

Meeting Procedures

The Board of Supervisors is the Legislative Body of the City and County of San Francisco. The Board has several standing Committees where ordinances and resolutions are the subject of hearings at which members of the public are urged to testify. The full Board does not hold a second public hearing on measures which have been heard in committee.

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CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET ANALYST

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FAX (415) 252-0461

November 13, 2003

TO: Finance and Audits Committee

FROM: Budget Analyst

SUBJECT: November 19, 2003 Finance and Audits Committee Meeting

Item 2 - File 03-1710

Department: Airport

Item: Resolution approving the 28 Direct Leases for the Airport Domestic Terminals Food and Beverage Redevelopment Program – between Lori's Diner International, Inc.; Andale SFO; Sanraku, Inc.; Meyers Holdings, LLC, Firewood Café, Series I-II; Fung Lum Express, LLC; Bayport Concessions, LLC; Bay Area Restaurant Group Joint Venture; GDDC, Inc.; Tomokazu Japanese Cuisine (SFO), Inc.; (Jonathon Leong) L & H, LLC; H. Young Enterprises, Inc.; WSE Group; San Francisco Soup Co., Inc.; Guava & Java (SFO), Inc.; J. Avery Enterprises; Gotham Enterprises, LLC, SFO Coffee IV-VI Series; H. Young Enterprises; Susie Lee Tong Enterprises, Inc.; Lady Luck Gourmet, LLC; Creative Host Services, Inc.; D-Lew Enterprises, LLC; Burger Joint, Inc.; Creative Host Services, Inc.; Emporio Rulli, Inc.; Bay Area Restaurant Group Joint Venture; D-Lew Enterprises, LLC; Bay Area Restaurant Group Joint Venture; Andre-Boudin Bakeries, Inc., each as a tenant, and the City and County of San Francisco, acting by and through its Airport Commission, as landlord. These Direct Leases replace the Master Lease Program currently in place and set to expire on August 31, 2004.

As compared to the Master Lease Program currently in place under which one lessee Host International, Inc. serves as the Master Tenant in charge of various food and beverage concessionaires in the Domestic Terminal Building Complex, including Domestic Terminals 1 and 3, connecting concourses, piers, and the boarding areas, this

proposed Direct Lease Program would comprise 28 separate lessees operating 42 food and beverage establishments in Domestic Terminals 1 and 3 of the Airport.[1]

Location: Domestic Terminals 1 and 3 of the Airport.

Description: Approval of the proposed resolution would institute a Direct Lease Program for the redevelopment of the Domestic Terminals Food and Beverage Program, comprising the 28 lessees listed in Attachment I, provided by the Airport, instead of having one Master Tenant (currently, Host International) as is presently the case. The proposed Direct Lease Program is described below.

Purpose of Leases: The proposed 28 new ten-year leases, with one two-year option at the Airport's discretion, (see Right of Renewal section below) would provide approximately 48,438 square feet of space in various locations in Domestic Terminals 1 and 3 of the Airport for 28 lessees to operate 42 food and beverage establishments under a Direct Lease Program, as defined in Attachment II, provided by Mr. David Pfeiffer of the Airport. The 28 leases would be phased in as the space becomes available (see "Airport Infrastructure Improvements" and "Tenant Improvements" sections below). Between September 1, 2004 and November 30, 2004, 15 of the 42 food and beverage establishments would be in operation. Eight of those establishments would be operating in temporary facilities until the Airport begins construction of their permanent facilities. The other seven establishments would be full-lease establishments with the Airport infrastructure improvements and the tenant improvements already completed prior to September 1, 2004. According to the Airport, the remaining 27 establishments would be incrementally phased in to be ready for operation by August 31, 2005.

[1] Since twelve of the 28 lessees have two establishments and one lessee has three establishments under the same lease, the total number of businesses under these 28 leases is 42.

Table 1: Phasing In The Food and Beverage Establishments Under the Direct Lease Program

Timeframe	New Establishments in Operation	Total in Operation
Sept. 1, 04 – Nov. 30, 04	15	15
Dec. 1, 05 – Feb. 28, 05	9	24
Mar. 1, 05 – May 31, 05	8	32
Jun. 1, 05 – Aug. 31, 05	10	42

Lessor: City and County of San Francisco, acting by and through its Airport Commission.

Lessees: 28 lessees, as listed in Attachment I, provided by the Airport.

Number of Square Feet: Approximately 48,438 square feet of space, itemized by the 28 individual leases listed in Attachment I. According to Mr. Pfeiffer, based on preliminary discussions he has had with some of the airlines, whose terminal spaces are situated next to the proposed food and beverage establishments, the actual square footage may increase by 1,914 square feet to 50,352 square feet. Also, according to Mr. Pfeiffer, prior to the tenants occupying the space and subsequent to the completion of the tenant improvements, the assigned spaces would be re-measured and the Minimum Annual Guarantee (MAG) would be adjusted accordingly.

Annual Rent Payable by 28 Lessees to Airport: The 28 proposed leases would cumulatively require the 28 lessees to pay the Airport the greater of either the total MAG of $1,937,520 each year (see Attachment I) as adjusted (see Adjustments to MAG section below) from FY 2005-2006 through FY 2014-2015,[2] based on $40 per square foot, or a percentage of each lessee's gross revenues applicable to their food and beverage category as shown in Table 2 below. The MAG and the tiered percentage of gross revenues were developed by the Airport based on the actual performance of the existing Food and Domestic Concessions Direct Lease Program being operated at the Airport's International Terminal. According To Mr. Pfeiffer, differences in the tiered

[2] The standard term of the leases is ten years. However, for each lease there is a one two-year option to extend the term, for a total of 12 years. The Airport has incorporated the additional two years into their projections for the 12 year period of FY 2004-2005 through FY 2015-2016. During the first year, FY 2004-2005, the Airport will not receive the full value of the annual rent since all establishments would not have been in operation for the full year.

percentage by food and beverage category is based on the differences in margins. Attachment III, provided by the Airport, explains in detail how these tiered percentages of gross revenue and the MAG were developed.

Table 2: Tiered Revenue Percentages by Category Under the Proposed Direct Lease Program

Food and Beverage Category	Tiered Percentage Rent
Casual Dining/Bar	▪ 8% of Gross Revenues up to and including $600,000; plus ▪ 10% of Gross Revenues between $600,000.01 and $1,000,000; plus ▪ 12% of Gross Revenue over $1,000,000
Quick Serve and Café[3]	▪ 6% of Gross Revenues up to and including $600,000; plus ▪ 8% of Gross Revenues between $600,000.01 and $1,000,000; plus ▪ 10% of Gross Revenue over $1,000,000.
Fast Food	▪ 8% of Gross Revenues up to and including $750,000; plus ▪ 10% of Gross Revenues between $750,000.01 and $1,200,000; plus ▪ 12% of Gross Revenue over $1,200,000.
Specialty Coffee	▪ 8% of Gross Revenues up to and including $750,000; plus ▪ 10% of Gross Revenues between $750,000.01 and $1,400,000; plus ▪ 12% of Gross Revenue over $1,400,000.

Use of Competitive Bidding Procedures to Determine the MAG and the Percentage Rents: The Airport did not use competitive bidding procedures to determine either the MAG or the percentage rents.

Adjustments to MAG: The MAG will be adjusted annually on January 1st. The adjustment is based on a formula, which for each of the 28 leases compares (a) the percentage increase in the Consumer Price Index (CPI) and the total number of airline passengers on the lease's anniversary date, with (b) the CPI and total number of airline passengers at the commencement of the lease. Each year, the MAG cannot be lower than the prior year.

[3] According to Mr. Pfeiffer, the tiered percentage rates for the "Quick Serve and Café" food and beverage category are lower than the other food and beverage categories because the gross margins for the Quick Serve and Café establishments are lower.

Suspension of MAG: The MAG will be suspended if, at any time during the lease term, there is a "Severe Decline in Enplanements," defined as actual enplanements achieved during a calendar month being less than 80 percent of the actual enplanements of the same month in the prior year, for a period of three consecutive months. During the suspension period, each lessee shall be required to pay only the rent equal to the percentage of that lessee's gross revenues applicable to their food and beverage category as outlined above. In some cases, this could result in revenues above the MAG. Once actual enplanements for a particular calendar month equal or exceed 80 percent of the actual enplanements of the same month in the prior year, and this threshold is achieved for two consecutive months, then the MAG is reinstated. Attachment IV, provided by the Airport, explains why the Airport has proposed the above suspension provisions.

Other Fees Payable By Lessees to the Airport: In addition to the annual rent payments, the lessees will be required to pay to the Airport two additional fees, a "Tenant Infrastructure Fee," and for those lessees with leased space in the food court area, an additional "Food Court Fee." The food court area is an area with common seating for all customers of the businesses that operate there. Both of these additional fees will be paid on an annual basis and each fee will be based on $15.00 per square foot of leased space. The 16 lessees operating in the food court area, leasing a total of 16,139 square feet would pay both the Tenant Infrastructure Fee and the Food Court Fee, for a total of $30.00 per square foot of leased space. These fees are not subject to CPI adjustments as they were set at a level that would enable the Airport's costs to be amortized for improvements for Tenant Infrastructure and the Food Court over the full ten-year term of the leases (see Airport Infrastructure Improvements section below). Neither of these fees is subject to suspension periods due to a Severe Decline in Enplanements.

Projected Revenues: Total annual projected revenues for the first full year of operation based on the MAG, Tenant Infrastructure Fee, and Food Court Annual Fee to be paid by the 28 lessees to the Airport are summarized in the table below:

Table 3: Minimum Total Annual Revenues Under the Proposed Direct Lease Program

Category	No. of Lessees	Square Footage	Cost Per Square Foot	Minimum Annual Rent Payment to the Airport from FY 2005-2006 Through FY 2014-2015	
MAG	28	48,438	$40.00		$1,937,520*
Tenant Infrastructure Annual Fee	28	48,438	$15.00	$726,570	
Food Court Annual Fee	16	16,139	$15.00	242,085	
Subtotal					$968,655
Minimum Total Annual Revenues:					**$2,906,175**

*This amount is subject to suspension periods due to Severe Decline in Emplanements.

The Airport reports in Attachment V, that revenue projections for the Direct Lease program were developed by the Airport staff and reviewed by a consultant to the Airport, Leigh Fisher Associates, Inc., based on the enplanement projections developed by the Airport. The enplanement projections are based on FY 2002-2003 actual enplanements and are assumed to grow at an annual rate of 3 percent. According to Mr. Pfeiffer, this assumption results in passenger enplanement projections which are more conservative than those forecast by J.F. Brown for the 12-year period from FY 2004-2005 through FY 2015-2016. J.F. Brown is an aviation consulting firm that is under contract to the Airport and provides monthly passenger enplanement forecasts. Based on these underlying assumptions, the Airport estimates that they will exceed the MAG established for the Direct Lease Program of $1,937,520, for all forecasted years including the transitional year of FY 2004-2005 when all the establishments are not yet in operation. This is summarized in the table below:

Table 4: Projected Revenue to the Airport Over 12 years Under the Proposed Direct Lease Program Based on the MAG and the Percentage of Gross Revenues

Fiscal Year	Rent Based on MAG *	Projected Rent Based on Percentage of Gross Revenues	Amount Percentage Rent Exceeds MAG
FY 2004-2005	$1,937,520	$3,637,000	$1,699,480
FY 2005-2006	1,937,520	5,204,000	3,266,480
FY 2006-2007	1,937,520	5,564,000	3,626,480
FY 2007-2008	1,937,520	5,946,000	4,008,480
FY 2008-2009	1,937,520	6,353,000	4,415,480
FY 2009-2010	1,937,520	6,795,000	4,857,480
FY 2010-2011	1,937,520	7,253,000	5,315,480
FY 2011-2012	1,937,520	7,703,000	5,765,480
FY 2012-2013	1,937,520	8,163,000	6,225,480
FY 2013-2014	1,937,520	8,652,000	6,714,480
FY 2014-2015	1,937,520	9,169,000	7,231,480
FY 2015-2016	1,937,520	10,198,000	8,260,480
Totals	$23,250,240	$84,638,000**	$61,387,760**

*MAG does not include annual adjustments based on CPI and enplanement growth. Average growth of 3 percent annually would increase total MAG over lease term by $4,247,101 or 18.3 percent from $23,250,240 to $27,497,341

** Rounded.

As shown in Table 4 above, the Airport projects that over a twelve-year lease period, total projected percentage rent of $84,678,000 will exceed the total MAG of $23,250,240 by $61,387,760.

__Source__: Airport Preliminary Projections

The actual revenues received under the existing Master Lease Program during the five-year period from FY 1999-2000 through FY 2003-2004, are shown in the table below. Revenues to the Airport under the Master Lease program hit their peak in 2000 and prior to September 11, 2001 they remained above the Master Lease MAG of $3,338,839. However, following the events of September 11, 2001, gross revenues declined and the amount paid to the Airport was only the MAG of $3,338,839.

Table 5: Actual Rent Received Under the Existing Master Lease Program

Calendar Year	Actual Percentage Rent Paid to the Airport
1999	$6,541,670
2000	7,212,283
2001	5,133,843
2002	4,651,804
2003 *	3,391,979

* Calendar year 2003 percentage rent paid is for nine months through September 30, 2003. A straight line projection for twelve months based on the nine month actual percentage rent results in total projected rent of $4,522,635.

Source: Airport Financial Reports

Term of Leases: The standard term of the 28 leases is ten years, with one two year option, plus construction periods of up to 90 days for non-food court establishments and 120 days for food court establishments (see "Tenant Improvements" below). Mr. Pfeiffer advises that the 28 proposed leases would commence between September 1, 2004 and September 1, 2005 as the tenant improvements are completed and their spaces become available. Each lease would have a ten-year term from the date that the lessee begins operations in their improved site.

Right of Renewal: For each lease, there is a one two-year option to extend the term, for a total lease term of 12 years, to be exercised at the Airport's discretion.

Utilities and Janitorial Services Each lessee pays the Airport for the costs of all utilities. Janitorial services are the responsibility of the lessees who have the option of either performing such work themselves, contracting for janitorial services or paying the Airport to provide janitorial services.

Airport Infrastructure Improvements: The Airport will perform various construction work on behalf of the 28 lessees at an estimated total cost of $14,800,000 to be reimbursed by the lessees through the payment of annual Tenant Infrastructure and Food Court Fees to the Airport, as previously described. The Airport is funding these costs from previously appropriated and unexpended revenue bond capital improvement monies. Mr. Kevin Kone of the Airport estimates the principal and interest payments for the total $14,800,000, reflecting an average interest rate of 5.5 percent and amortization over 20 years, will be $972,000 annually. This annual amount of $972,000 would be almost entirely reimbursed from the $968,655 of Tenant Infrastructure

Fee and Food Court Fee revenues that would be received annually from the lessees.

According to Mr. Pfeiffer, the Airport is undertaking these Airport infrastructure improvements because the Airport's leased premises for existing food and beverage spaces do not adequately meet current standards and building codes for food preparation.

Tenant Improvements: During the first five years of the proposed leases, each of the 28 proposed leases would require the lessees to invest a minimum of $250 per square foot to refurbish, redecorate and modernize the public area of their leased space(s) over and above the $14,800,000 of Infrastructure Improvements noted above. This minimum of $250 per square foot cost represents a cumulative investment by the 28 lessees of $12,109,500 for the 48,438 square feet of leased space. After the fifth anniversary of the Rent Commencement Date, the 28 lessees would again be required to refurbish, redecorate and modernize the interior and exterior of the public area of their leased space(s) at a minimum cost of one half of their initial investment, or an additional minimum cumulative investment of $6,054,750 based on $125 per square foot. The Airport Director may waive or suspend this latter requirement if the Airport Director is satisfied with the maintenance program for any individual lease.

Security Deposit: Each of the 28 lessees are required at all times to maintain a security deposit of no less than 50 percent of their MAG, cumulatively totaling $1,937,520, resulting in a cumulative deposit amount of $968,760. As the MAG is adjusted on the Anniversary Date, each lessee will be required to increase their security deposit accordingly on the anniversary date of their individual lease, which will vary due to the lessees' staggered start dates.

Background: Attachment VI, provided by Mr. Pfeiffer, provides background information of the history leading up to the proposed Direct Lease Program and an explanation of why this approach was selected over the Master Lease Program currently utilized by the Airport Commission.

Comments:

The Current Master Lease Program Compared to the Proposed Direct Lease Program

1. Host International, Inc., whose lease expires on August 31, 2004, is the Master Tenant under the existing Domestic Terminals Food and Beverage Master Lease Program. Host was selected by the Airport through a competitive bid process. The original term of the current master lease commenced in two stages: (a) on December 1, 1976 for in-flight consumption by airline passengers (17-year term), and (b) on September 1, 1979 for Terminal Building Complex sales (15-year term), with the master lease continuing until August 31, 1994. The lease had one option for extension for an additional ten-year period at the Airport's discretion. On August 31, 1994, the Airport Commission exercised this option and extended the lease to August 31, 2004. Annual rent for this master lease is the higher of the MAG of $3,338,839 or, if higher than the MAG, the sum of the following percentages: 9.24 percent of food and non-alcoholic beverage sales and 15.24 percent of alcoholic beverage sales.

2. The premises under the current master lease with Host International, Inc. total approximately 105,141 square feet of leaseable space in the Domestic Terminals. This is 56,703 square feet more space than the 48,438 square feet to be leased to the 28 lessees under the proposed Direct Lease Program. Although actual leased space under the Direct Lease Program has been reduced by 56,703 square feet, according to Mr. Pfeiffer the actual revenue generating leased space has increased by 7,910 square feet. Mr. Pfeiffer advises that this is because that out of the 105,141 square feet of leased space under the original master lease, there is 64,613 square feet of non-revenue generating space such as office space, storage space, common area space, employee locker rooms, a commissary, and an employee cafeteria and only 40,528 square feet of revenue generating space. Under the new Direct Lease Program, all 48,348 square feet of leased space is revenue generating and lessees will be paying for storage under separate month-to-month permits. The Airport is also planning to rent the currently occupied office space and employee locker rooms to Direct Lease Program lessees and other Airport lessees

under separate month-to-month lease agreements. The Airport expects to rent such office, employee locker room, and commissary space at approximately $34.00 per square foot per year, but has not yet determined the final rent or selected the specific future lessees. Therefore, the Airport is currently unable to estimate the future annual revenues from renting such premises.

3. Under this proposed Direct Lease Program, the Airport is guaranteed to receive total gross revenues of at least $2,906,175 (see Table 3 above) annually, comprised of the MAG in the amount of $1,937,520, Tenant Infrastructure Fee revenues in the amount of $726,570, and Food Court Fee revenues in the amount of $242,085. The guaranteed annual revenue under the Direct Lease program is $432,664 less than the guaranteed revenue, or MAG of $3,338,839 under the Master Lease program currently in place with Host International, Inc. However, as shown in Attachment VII provided by Mr. Pfeiffer, except for FY 2004-2005, for each year between FY 2005-2006 and FY 2015-2016, the Airport projects that the net revenues achieved under the percentage rent provision of the proposed Direct Lease Program would exceed the current Master Lease Program MAG of $3,339,839. The one year in which this is projected to not occur is the transitional first lease year (Sept. 1, 2004, through August 31, 2005) when only a portion of the establishments will be in operation for the full year. In the first lease year, total revenue based on percentage of sales is projected to be $3,637,000 and net revenue after debt service and the Leigh Fisher contract payment is projected to total $3,132,000 which is $207,839 less than the current MAG of $3,339,839.

4. As shown in Attachment VII, under the Direct Lease Program revenues based on percentage rent are projected to surpass the Direct Lease program MAG of $1,937,520 each year, including the FY 2004-2005 which is the transition year when all lessees are not yet in operation for the full year.

Under the existing Master Lease program, if it were to remain in place, Mr. Pfeiffer projects gross revenues to grow in line with the growth in enplanements but the

revenue per enplanements will remain flat at $3.66 due to the lack of investment to improve infrastructure. During the same 12-year period FY 2004-2005 through FY 2015-2016, the cumulative percentage revenues under the existing Master Lease Program, if it were to continue, are projected to total $66,646,206 as shown in Attachment VII. Additionally, as is illustrated in Attachment VII, the projected percentage revenues, under a continuation of the Master Lease program are projected to exceed the Master Lease MAG of $3,338,839 in each year.

Prior to making a decision to adopt a Direct Lease Program, as is currently being proposed, the Airport began pursuing a new Master Lease/Developer Program to replace the current Master Lease program with Host International. However, according to Mr. Pfeiffer, during the course of extensive negotiations with Marketplace, the developer ranked first for a new Master Lease/Developer Program, it became apparent to the Airport that the Airport could redevelop the Program on a more cost-effective and timely manner by moving forward under a Direct Lease Program, rather than a Master Lease/Developer model. Under a Master Lease/Developer model, the Airport would compensate the developer for any Infrastructure Investments, debt service costs to finance infrastructure improvements, and for a percentage of the MAG. Additionally, the Developer would share in a portion of the sub-lessees' gross revenues at a rate of 20%. Consequently, cumulative revenues based on percentage of gross sales were projected to be $48,886,839 under the Master Lease/Developer program, considerably lower than either the existing Master Lease Program at a projected $66,646,206 or the proposed Direct Lease Program at a projected $84,638,000, during the period of FY 2004-2005 through FY 2015-2016.

The table below summarizes the Airport's comparison of projected revenue under the three Food and Beverage Concessions programs:

Table 6: Comparison of Cumulative Rent Projected by the Airport for the twelve-year period FY 2004-2005 through FY 2015-2016

Rent To The Airport	Existing Master Lease Program	Originally Proposed Lease/ Developer Program	Subject Proposed Direct Lease Program
Based on tiered Percentage of sales	$66,646,206	$48,886,839	$84,638,000
MAG	$40,066,068	$19,200,000	$23,250,240
Annual MAG	$3,338,839	$1,600,000	$1,937,520

Source: Airport Revenue Projections

5. The Budget Analyst contacted the Leasing Managers of the Denver, Portland, and Dallas Fort Worth Airports, which all have Direct Lease Programs in place for their food and beverage concessions. According to the Leasing Managers in charge of those Direct Lease Programs, each of those three Airports included price in their competitive bid processes, such that the prospective lessees were required to include bids for their tiered percentage rent structure and for their MAG. In contrast, San Francisco International Airport did not did not competitively bid either its MAG or percentage rent in its competitive processes for the proposed Direct Lease Program. Instead, the Airport developed the tiered revenue percentage structure discussed above and prescribed the MAG of $40 per square foot and the percentage rent structure in the Airport's Request for Proposals document. Attachment III is a memo from the Airport outlining their approach to developing this price structure.

One reason for taking this approach, according to Mr. Pfeiffer, was because of the Airport's desire to include a large number of Disadvantaged Business Enterprises (DBEs) and including competitive bids based on price and revenue potential to the Airport may have excluded many of DBEs. However, the Budget Analyst notes that without a competitive selection process that includes the MAG and the percentage rent revenue factors, it is impossible to determine whether the proposed leases will maximize

revenue to the Airport. Further, the Budget Analyst notes that the first listed goal and objective of the proposed leasing program, as shown in Attachment VI from the Airport, is to "maximize revenue to the Airport." Based on data provided by the Airport, 19 of the 28 proposed lessees are registered DBEs but the remaining 9 lessees are not DBEs. Attachment VI, pages 5 and 6 provides a listing of the proposed lessees who are DBE.

Attachment III from the Airport reiterates this goal to maximize revenues. The Budget Analyst inquired as to the method the Airport used to determine that the selected lessees would achieve maximum revenue without a competitive selection process for the MAG and the percentage rent revenue factors. In response, Mr. Pfeiffer states in Attachment IX that:

> " The Blue Ribbon Panel was highly focused on selecting the best proposer for each location, based on the perceived ability of the proposer to produce high sales based on its track record, proposed concept, menu, experience, reputation, business plan, and other information requested in the RFP."

In the professional judgment of the Budget Analyst, the evaluation of revenue potential and selection process of the Blue Ribbon Panel would have been enhanced if bidders had been instructed to include individual bids for the MAG and percentage rent they would be willing to pay.

6. The Budget Analyst has found that the Denver Airport has a Direct Lease Program which includes 114 lessees and is achieving an average effective rent of 13 percent of total gross revenues from all such lessees. The effective rent is the amount of rent that the Denver Airport receives as a percentage of total gross revenues generated by the lessees. The Dallas Fort Worth Airport is achieving an average effective rent of 11.5 percent of total gross revenues from their lessees and the Portland Airport is achieving an average effective rent of 13.5 percent of total gross revenues from these lessees. In comparison, the existing Food and Beverage Direct Lease Program at San Francisco's International Terminal realizes an effective rent of an average of only 8.5 percent and the subject, proposed Direct Lease Program at Domestic Terminals 1 and 3 would receive an average of 9.3 percent of gross

sales based on the projected revenues provided by the Airport in Attachment VII.

To illustrate the revenue impact of these differences, if each of these Airports' Direct Lease Program lessees generated, as an example, $50,000,000 in gross sales, the total annual rent payable to their respective Airports would be as noted in the table below, based on these average effective rent percentages:

Table 7: Comparison of Effective Percentage Rent for Airports with Food and Beverage Concession Using a Direct Lease Program

Airport	Annual Gross Sales	Effective Pct. Rent	Annual Total Rent
Portland	$50,000,000	13.5%	$6,750,000
Denver	$50,000,000	13.0%	$6,500,000
Dallas Fort Worth	$50,000,000	11.5%	$5,750,000
SF Domestic (Projected)	**$50,000,000**	**9.3%**	**$4,650,000**
SF International	$50,000,000	8.5%	$4,250,000

The Tenant Selection Process

7. Mr. Pfeiffer advises that since the Airport decided to proceed with a Direct Lease Program relatively late in the process, the Airport did not have enough staff who were sufficiently experienced in direct lease programs to undertake the work themselves. Therefore, according to Mr. Pfeiffer, the Airport needed to retain Leigh Fisher Associates, Inc. to act as an expert consultant. Leigh Fisher Associates, Inc. is currently being used by the Direct Lease Program at Denver International Airport. Mr. Pfeiffer advises that the Airport has assigned three staff members to work directly with Leigh Fisher Associates, Inc. so that Airport staff will have the in-house expertise necessary to assume responsibility for managing the Direct Lease Program, and any future direct lease programs developed by the Airport, after Leigh Fisher Associates, Inc.'s contract expires.

8. According to the Airport, the 28 Lessees were selected by a "Blue Ribbon Panel" comprising community members with combined relevant expertise using a two stage

Request for Qualifications and Request for Proposal process. As described in Attachment VIII, the Airport states that Leigh Fisher Associates, Inc., as the Outreach Manager, conducted extensive outreach in the San Francisco Bay Area community to provide information on the business opportunities available to prospective tenants after improvements are made to the Domestic Terminals Food and Beverage facilities. Advertisements were placed with 16 outreach publications of which 11 are minority publications. Press releases were sent to over 70 Bay Area media contacts. During the Request for Qualifications phase, selected operators were asked to submit a short statement of their qualifications in terms of experience and revenue requirements. During the Request for Proposals phase, operators were asked to submit a proposal outlining their experience, Disadvantaged Business Enterprise (DBE) status, and other criteria. Based on this information, the Blue Ribbon Panel identified recommended lessees. The 28 recommended lessees were selected through the process described above. Prospective lessees were requested to submit their bids based on the tiered percentage revenue structure as set by the Airport and the $40 per square foot MAG as set by the Airport and as prescribed in the Airport's Request for Proposals document. According to Mr. Pfeiffer, the tiered percentage revenue structure and the $40 per square foot MAG were calculated by the Airport based on the experience with similar food and beverages establishments under their Direct Lease Program at the International Terminal. Attachment VIII from the Airport provides further details.

9. The Budget Analyst notes that the Airport's request for proposals did not weight the factors on which the Bidders were rated by the Blue Ribbon Panel, and did not specifically include a factor related to the Airport's first goal and objective to "maximize revenue to the Airport," as stated in Attachment VI. Further, the Blue Ribbon Panel was not asked by the Airport to evaluate each bidder's percentage rent revenue potential (i.e. their ability to exceed their MAG requirements). Therefore, as previously noted, the Budget Analyst found that the lessees were not asked to compete by providing bids on individual MAGs or their individual percentage rent structures. In both cases, those financial structures were determined and set by the Airport at the outset of the lessee selection process. Given

that both the MAG and the percentage revenue structures were already set by the Airport, there is no way of knowing if individual bidders would have exceeded these rent requirements in their individual bids through a competitive bidding process.

Fair Market Value

10. As stated in Attachment V provided by Mr. Pfeiffer, given the current economic conditions in the City and based on industry feedback, Mr. Pfeiffer advises that the subject MAG represents a fair market rate. Leigh Fischer Associates, Inc have verified this conclusion according to Mr. Pfeiffer. According to Attachment III provided by Mr. Pfeiffer, the $40 per square foot MAG is "well above market rents in the Bay Area for Food and Beverage operators, which run $20-$25 per square foot on average". However, the Budget Analyst notes that an Airport facility location for such food and beverage businesses presents unique advantages to operators that are not generally available to other operators in the Bay Area.

11. The Budget Analyst notes that the Airport is holding security deposits of $20,000 from each of an additional 41 operators who would like to enter into food and beverage leases under the Direct Lease Program at Domestic Terminals 1 and 3. This indicates to the Budget Analyst that there may be an opportunity for the Airport to renegotiate both the MAG and the tiered revenue percentages. The inclusion of percentage rent revenue potential in the competitive bid information may alter the result in terms of which lessees would be chosen and what revenues would be earned as a result. Even if the result was unchanged, such a review would validate the 28 proposed lessees who were selected by the Airport.

Summary of the Issues Noted by the Budget Analyst:

In summary, the Budget Analyst raises the following issues pertaining to the proposed Direct Lease Program:

- The 28 lessees were not asked to competitively bid on either their individual MAGs or their individual percentage revenue structures because of the Airport's desire to include a large number of Disadvantaged Business Enterprises (DBEs) and the Airport's contention that competitive bids based on price and revenue potential to the Airport may have excluded many DBEs. According to the Airport, 67.9 percent or

19 of the 28 lessees are DBEs and nine are not DBEs. The Airport at the outset of the tenant selection process, set both the MAG and percentage rent structure. Given that both the MAG and the percentage revenue structures were set by the Airport, without the utilization of competitive bidding procedures, there is no way of assessing whether individual bidders would have exceeded these rent requirements, thereby resulting in greater revenue potential for the City. Therefore, it is not clear that the level of rent payments the Airport will receive under this Direct Lease Program will achieve the Airport's objective to "maximize revenues to the Airport."

- Discussions with three other airports which have Direct Lease Programs revealed that their selection processes required a competitive bidding process for both the tiered revenue percentage structure and the MAG proposals. In the case of the Denver Airport, their average effective rent was 13 percent, Dallas Fort Worth had an average effective rent of 11.5 percent, and Portland had 13.5 percent. This is compared to a projected 9.3 percent under this proposed Direct Lease Program at San Francisco International Airport.

- Although the Airport claims that the benefit of going to the Direct Lease Program is for the Airport to gain direct control over the food and beverage leases, the Budget Analyst notes that the Airport is in fact using a third party, Leigh Fisher Associates, Inc., to undertake the outreach for, and selection of, the tenants and the related facilities space planning. Furthermore, the Budget Analyst notes that the Leigh Fisher Associates, Inc. contract, at a total contract cost of $1,334,000, is extendable and that the Airport is currently considering whether it wishes to contract management services consultants in the future.

- The Airport expects to rent office, employee locker room, and commissary space at approximately $32.00 per square foot, but has not yet determined the final per square footage or selected the specific future tenants. Therefore, the Airport is currently unable to estimate the future annual revenues from these spaces.

- The guaranteed revenue in the amount of $2,906,175 annually under the proposed Direct Lease Program is $432,664 less than the existing MAG of $3,338,839 under the Master Lease Program currently in place with Host International, Inc. However, as indicated in Attachment VII provided by the Airport, each year between FY 2005-2006 and FY 2014-2015, the Airport projects that the net revenues achieved under the percentage rent provision of the proposed Direct Lease Program would exceed the current Master Lease Program MAG of $3,339,839.

- The Airport currently holds deposits of $20,000 each from 41 operators interested in being a part of this Direct Lease Program. This indicates that there may be an opportunity for the Airport to renegotiate both the MAG and the tiered revenue percentages.

The Budget Analyst acknowledges that the Airport's desire to include a large number of Disadvantaged Business Enterprises is an appropriate policy. However, from a financial perspective, and from the standpoint of maximizing revenue to the Airport, the Budget Analyst cannot recommend approval of the proposed resolution because: a) the Airport did not competitively bid the lessees' individual MAG and percentage rent; and, b) a survey of other airports operating direct leasing programs found that the San Francisco Airport would realize substantially lower effective percentage rent under the proposed direct leasing program.

Recommendations:

1. Disapprove the proposed resolution.

2. Require the Airport to undertake a new RFP process which includes the submission, by prospective food and beverage lessees, of competitive Minimum Annual Guarantee (MAG) and percentage rent revenue proposals.

3. Direct the Airport to, if necessary, extend the current Master Lease program with Host International, Inc. on a month-to-month basis, in accordance with Section 2 of the Airport's existing Lease Agreement with Host International, Inc., pending award of the subject leases based on the use of a competitive process that includes both MAG and percentage rent revenue proposals.

				Leasable Space			First Year Revenues					T.I.
Lease No.	Lessee	Concept	Category	Food Court SqFt	Non Food SqFt	Total SqFt	MAG	TI Fee	FC Fee	Initial Promo Fee	Total Annual Revenue	Min. Invest $
1	Lori's Diner International, Inc.	Lori's Diner	Quick Serve	2,044	0	2,044	$81,760	$30,660	$30,660	$2,044	$145,124	$511,000
2	Andale SFO	Andale Taqueria	Quick Serve	1,814	0	1,814	$72,560	$27,210	$27,210	$1,814	$128,794	$453,500
3	Sanraku, Inc.	Sanraku	Quick Serve	1,337	0	1,337	$53,480	$20,055	$20,055	$1,337	$94,927	$334,250
4	Meyers Holdings LLC, Firewood Café, Series I-II	Firewood Café	Quick Serve	1,333	0	1,333	$53,320	$19,995	$19,995	$1,333	$94,643	$333,250
5	Fung Lum Express, LLC.	Fung Lum Express	Quick Serve	1,767	0	1,767	$70,680	$26,505	$26,505	$1,767	$125,457	$441,750
6	Bayport Concessions, LLC	Willow Street Woodfire Pizza	Quick Serve	633	1,440	2,073	$82,920	$31,095	$9,495	$2,073	$125,583	$518,250
7	Bay Area Restaurant Group Joint Venture	Noah's Bagels, Max's Eatz	Quick Serve	669	1,440	2,109	$84,360	$31,635	$10,035	$2,109	$128,139	$527,250
8	GDDC, Inc.	Subway	Quick Serve	1,307	0	1,307	$52,280	$19,605	$19,605	$1,307	$92,797	$326,750
9	Tomokazu Japanese Cuisine Inc.	Tomokazu	Quick Serve	898	0	898	$35,920	$13,470	$13,470	$898	$63,758	$224,500
10	Jonathan Leong L&H, LLC.	Luna Azul	Quick Serve	506	0	506	$20,240	$7,590	$7,590	$506	$35,926	$126,500
11	H. Young Enterprises, Inc.	Just Desserts	Quick Serve	230	0	230	$9,200	$3,450	$3,450	$230	$16,330	$57,500
12	WSE Group, Inc.	Burger King	Fast Food	816	1,002	1,818	$72,720	$27,270	$12,240	$1,818	$114,048	$454,500
13	San Francisco Soup Co. Inc.	SF Soup Co.	Café'	826	0	826	$33,040	$12,390	$12,390	$826	$58,646	$206,500
14	Guava & Java	Guava & Java	Café'	400	800	1,200	$48,000	$18,000	$6,000	$1,200	$73,200	$300,000
15	J. Avery Enterprises	Klein's Deli Café	Café'	0	1,160	1,160	$46,400	$17,400	$0	$1,160	$64,960	$290,000
16	Gotham Enterprises, LLC SFO Coffee IV-VI Series	Peet's Coffee	Specialty Coffee	727	310	1,037	$41,480	$15,555	$10,905	$1,037	$68,977	$259,250
17	H. Young Enterprises, Inc.	Just Desserts	Café'	0	1,334	1,334	$53,360	$20,010	$0	$1,334	$74,704	$333,500
18	Susie Lee Tong Enterprises, Inc.	Golden Gate Bar and Snacks	CD/Bar	0	1,616	1,616	$64,640	$24,240	$0	$1,616	$90,496	$404,000
19	Lady Luck Gourmet, LLC	Go Bar	CD/Bar	0	825	825	$33,000	$12,375	$0	$825	$46,200	$206,250
20	Creative Host Services, Inc.	TGI Friday's	CD/Bar	0	3,501	3,501	$140,040	$52,515	$0	$3,501	$196,056	$875,250
21	D-Lew Enterprises, LLC	Perry's	CD/Bar	0	3,460	3,460	$138,400	$51,900	$0	$3,460	$193,760	$865,000
22	Burger Joint, Inc.	Mission Bar & Grill	CD/Bar	0	1,726	1,726	$69,040	$25,890	$0	$1,726	$96,656	$431,500
23	Creative Host Services, Inc.	Alcatraz Brewing Company	CD/Bar	0	2,618	2,618	$104,720	$39,270	$0	$2,618	$146,608	$654,500
24	Emporio Rulli, Inc.	Emporio Rulli Grande Caffe	CD/Bar	0	2,860	2,860	$114,400	$42,900	$0	$2,860	$160,160	$715,000
25	Bay Area Restaurant Group Joint Venture	Buena Vista Café	CD/Bar	0	2,968	2,968	$118,720	$44,520	$0	$2,968	$166,208	$742,000
26	D-Lew Enterprises, LLC	Il Fornaio	CD/Bar	0	2,425	2,425	$97,000	$36,375	$0	$2,425	$135,800	$606,250
27	Bay Area Restaurant Group Joint Venture	Gordon Biersch	CD/Bar	0	2,814	2,814	$112,560	$42,210	$0	$2,814	$157,584	$703,500
28	Andre-Boudin Bakeries, Inc.	Boudin Bakery & Café	Quick Serve	832	0	832	$33,280	$12,480	$12,480	$832	$59,072	$208,000
	Totals:			16,139	32,299	48,438	1,937,520	726,570	242,085	48,438	2,954,613	12,109,500

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October 24, 2003

Mr. Harvey Rose
Office of the Budget Analyst
1390 Market Street, Suite 1025
San Francisco, CA 94102

Subject: Airport's Domestic Terminals Food and Beverage Redevelopment Program - Description

Dear Mr. Rose:

A "Direct Lease Program" is one where the Airport, rather than a master concessionaire/developer, oversees the outreach and selection of the tenant operators, enters into the direct leases with such operators, and thereafter manages such operators. This model, which is being used for the Domestic Terminals Food and Beverage Redevelopment Program, should yield greater participation by local and Disadvantaged Business Enterprise (DBE) operators, greater control by the Airport, improved customer service and quality, and higher financial returns to the Airport.

The proposed resolution would authorize the Airport to execute 28 ten-year leases under a direct leasing model, for approximately 48,438 square feet of space in various locations in Terminals 1 and 3 of the Airport. Under these proposed leases, 28 lessees will operate 42 food and beverage establishments in the Airport's domestic terminals. This square footage is based on current building specifications and will be re-measured and restated after the tenant infrastructure is completed and prior to finalizing the leases.

Very truly yours,

David W. Pfeiffer
Associate Deputy Director
Revenue Development

San Francisco International Airport

October 31, 2003

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Mr. Harvey Rose
Office of the Budget Analyst
1390 Market Street, Suite 1025
San Francisco, CA 94102

Subject: Airport's Domestic Terminals Food and Beverage Redevelopment Program – Rent Structure

Dear Mr. Rose:

The Minimum Annual Guarantee (MAG) and tiered rent structure for the Domestic Terminal Food and Beverage Program are the business terms approved by the Airport Commission. These terms follow the same footprint that the Airport Commission approved for the International Terminal Food and beverage Program that was put in place when that terminal opened in December 2000. This structure was developed by Marketplace Development who was the program manager for the International Terminal Food and Beverage Program, and was designed to provide reasonable return to both the tenant and while encouraging excellent performance by the food and beverage operators. The four categories of food and beverage offerings were determined by the differing levels of profit margins which can be expected from good operators. In this structure, tenants are protected against a severe drop in enplanements while ensuring that Airport shares in the increased revenue when enplanements rise.

The MAG will be $40 per square foot annually, to be adjusted annually by CPI adjustment but never lower than the initial $40. The rent due will be the greater of the MAG or the sum of the tiered percentage rent. The first level of sales (the first breakpoint) is the first tier of percentage rent. Beyond the first breakpoint, a higher percentage will be levied on all sales up to a second breakpoint. Finally, all sales beyond the second breakpoint will be charged to a third percentage. These tiered rents were developed after market studies and incorporate in the MAG, additional Airport charges, development and operating costs while ensuring tenants abilities to recover their investment over the term of lease. Marketplace used Micah Brode a San Francisco based food and beverage consultant to help develop these assumptions.

Under the Domestic Terminal Food and Beverage Program, the tenants also incur the infrastructure and food court recovery costs, which increase the effective MAG to between $55 and $70 per square foot per annum. These are well above market rents in the Bay Area for food and beverage operators, which run in the $20 to $25 per square foot, range average.

The goals from the Airport Commission were to maximize revenue potential, minimize costs and risks, while allowing the Airport to maintain the highest level of control over the program. The Commission also set a goal of 80% local operators with a minimum of 50% DBE participation while developing a program that delivers the highest level of service to the traveling public. This program and slate of tenants meets the goals of the Airport Commission. Upon Board of Supervisors approval, we will be able to meet the Airport Commission's goals of having program in place by September 1, 2004 and execute a smooth transition from the current operator to the new operator without compromising service to passengers.

Sincerely,

David W. Pfeiffer
Associate ~~Deputy~~ Director
Revenue Development

cc: John L. Martin
Leo Fermin

San Francisco International Airport

October 29, 2003

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Mr. Harvey Rose
Office of the Budget Analyst
1390 Market Street, Suite 1025
San Francisco, CA 94102

Subject: Airport's Domestic Terminals Food and Beverage Redevelopment Program – Severe Decline in Enplanements

Dear Mr. Rose:

Following the events of September 11, 2001, the Airport adopted the Severe Decline in Enplanements language to all new concessions leases, as a methodology to address any other catastrophic event. The language was added to help market future concession leases and to make it more viable for businesses to participate. After feedback from many prospective tenants that the Airport is not a desirable environment to do business in light of the potential of other catastrophic events.

As directly related to the Domestic Terminal Food and Beverage leases, they are structured so that the tenants are paying a tiered rent structure unless their sales performance is below the base level break even point, which would make the Minimum Annual Guarantee (MAG) greater. In the event that enplanement levels dropped at the same percentage, as experienced on September 11, 2001, off of the operators Base Year Enplanements (2003 for this Program), then the tenant would pay percentage rent only.

The language provides a trigger for the MAG to be temporarily suspended when the enplanements in the specific Boarding Area decline by 20% for three consecutive months compared to the Base year enplanement when the individual leases was awarded. During the MAG suspension period, tenant will be required to pay percentage rent. Further, once there is enplanement stabilization for two consecutive months, then the MAG will be reinstated and pro rated accordingly.

Very truly yours,

David W. Pfeiffer
Associate Deputy Director
Revenue Development

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October 29, 2003

Mr. Harvey Rose
Office of the Budget Analyst
1390 Market Street, Suite 1025
San Francisco, CA 94102

Subject: Airport's Domestic Terminals Food and Beverage Redevelopment Program - Projections

Dear Mr. Rose:

Projections for the Direct Lease Program were developed by Airport staff and reviewed by Leigh Fisher Associates. This verification included validation of enplanement projections and assumed to grow at an annual rate of 3%. This conservative assumption results in passenger enplanements below the J.F. Brown forecast throughout the Fiscal Year 2004-2016 projection period. The J. F. Brown forecast is considered inappropriate because actual 2003 enplanements were below the J.F. Brown forecast, resulting in a considerable difference in the base year enplanements. However, the assumed growth rate of 3.5% is consistent with the near-term rate of growth forecast by J.F. Brown. Projections also include a nominal inflation assumption of 2.5% annually.

Transition Year

Fiscal Year 2004-2005 will be the transition year for the Domestic Terminals Food and Beverage Program. The Airport anticipates an estimated $3,637,000 in projected gross revenues to be realized by a combination of existing concession units taken over and managed "as is" by new tenants on an interim basis. In addition, new tenants will complete their construction and commence operations during the transition year as shown on the attached Interim Program Schedule. (The transition year service plan and the Interim Program Schedule are preliminary and subject to modification). For Fiscal Year 2004-2005, after the annual payment for principal and interest on the infrastructure debt ($487,500) and the cost of outreach ($443,000), net revenues are $3,130,000 for the interim year. This amount is $208,500 less than the revenue currently received under the Master Concession Lease. However, it should be noted that, because the Master Concession Lease is expiring in 2004, there would be outreach and leasing costs associated with any program the Airport were to implement.

Full Program Implementation

Fiscal Year 2005-2006 is the first stabilized year for the program when all 28 leases will be fully operational. The Airport projects it will receive lease revenues of $5,204,000 plus Tenant Infrastructure and Food Court cost recovery fees ($968,655) for total revenues of $6,172,655. After taking out the annual payment of principal and interest on a full year of infrastructure debt ($972,000) and outreach costs ($443,000), net revenues to the Airport are $4,756,000. This amount is $1,417,000 more than the current revenue under the Master Concession Lease.

As shown on the attachment entitled Revenue Comparison Report, beginning with Fiscal Year 2006 all new improvements should be in full operation and, after the principal and interest payment, should produce net revenues of $5,116,000.

Outreach costs are recovered from net revenues in the first three years of the program, and end after Fiscal Year 2007. The Airport, using existing Airport staff who were trained through their participation on the Food and Beverage Development Team, will assume tenant management responsibilities under the Concession Development and Management Department (CDM).

Revenues to the Airport are projected to continue growing 6% each year through Fiscal Year 2016, with corresponding improvements in net revenue, as noted in the Revenue Comparison Report.

Underlying Sales Assumptions

The International Terminal food and beverage program produced an increase in sales per enplaned passenger of nearly 60%, as well as an increase in gross revenues (sales) compared with the former international terminal. It is common for sales from redeveloped concession programs to improve by 25% or more.

Revenue to the Airport is driven by customer sales. In the International Terminal, the 60% sales increase was the result of quality offerings, motivated local ownership, street pricing, and a varied selection of established local restaurants.

The underlying assumption of increased passenger sales shown on the attached Revenue Comparison is a conservative 22%. If customers embrace the domestic terminal program as they have the International Terminal program, substantially higher sales and revenues could be achieved.

Mr. Harvey Rose
October 29, 2003
Page 3

Tiered Rent Structure

Further, the tiered rent structure will provide increased revenue as volume increases (whether from increased sales to each passenger, or from faster growth/recovery in domestic passengers activity). Tenants will pay, and can afford to pay, more revenue as volume increases.

At the same time, the tiered rent structure provides greater resiliency for tenants should there be another catastrophic event that severely affects passenger activity, as experienced in 2001. The tiered rent structure with the lower set Minimum Annual Guarantee (MAG) allows tenants to remain viable should there be another shock to the airline industry. The MAG represents a fair market value especially when adding in the infrastructure cost of $15 per square foot and the food court costs of $15 per square foot where applicable. This is consistent with the MAG set for the International Terminal Food and Beverage Program.

The Board of Supervisors had recommended that the Airport not use a competitive process that resulted in unreasonably high MAGs. The tiered rent structure is responsive to this concern.

Very truly yours,

David W. Pfeiffer
Associate Deputy Director
Revenue Development

cc: John L. Martin
Leo Fermin

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October 24, 2003

Mr. Harvey Rose
Office of the Budget Analyst
1390 Market Street, Suite 1025
San Francisco, CA 94102

Subject: Airport's Domestic Terminals Food and Beverage Redevelopment Program - Background

Dear Mr. Rose:

The Food and Beverage Lease for the Domestic Terminals is currently with Host International, Inc. Host has been the master concessionaire since 1953. Annual rent for this lease is the higher of the MAG of $3,338,839 or the sum of the following rent percentages: 9.24% of food and non-alcoholic beverage sales and 15.24% of alcoholic beverage sales. The current premises totals approximately 105,141 square feet. This lease expires on August 31, 2004.

Based on the success of the International Terminal food and beverage program, the Airport Commission expressed a desire to have a program of similar quality for the domestic terminals when the current master concession lease expires in 2004. The International Terminal program features local established restaurateurs, high DBE participation, street pricing, and excellent quality, which resulted in an increase in per-passenger sales of 65% compared to the former International Terminal.

The Airport Director formed an Advisory Committee in April 2002 to assist in determining the best approach for providing food and beverage services. The Advisory Committee was given the following goals and objectives to consider in its deliberations:

- Revenue – maximize revenue to the Airport
- Costs – minimize cost and risk to Airport
- Airport Control – maintain the highest level of control over the program
- Worker Retention/Cross Training/Labor Card Check Rule – ensure that these issues are dealt with and are incorporated into the lease
- DBE/Local participation – develop program to enhance DBE and local participation
- Timing – ensure that a new Domestic Terminals Food and Beverage Program is in place by September 1, 2004

- Quality/Customer Service – develop a program delivering the highest level of service to the traveling public (on par with the International Terminal Program)
- Interim/Final Program Planning – develop a plan to ensure the smooth transition from current operator to new operator without compromising service.

<u>The Advisory Committee</u>

The Advisory Committee was comprised of the following Airport experts who served on the Committee on a *pro bono* basis:

- Mr. Jim Tyrell, Deputy Director of Aviation, Property Management and Business Development for the Philadelphia International Airport. Philadelphia uses a Master Developer approach.
- Mr. Joe Anderson, Manager, Concession and Business Development for the Minneapolis-St. Paul International Airport. Minneapolis-St. Paul uses a Master Concessionaire Program, supplemented by direct leasing.
- Mr. David Pfeiffer, Associate Deputy Director, Revenue Development for San Francisco International Airport. Mr. Pfeiffer was in charge of implementing the direct lease food and beverage program as a consultant with MarketPlace Development, and had played a key role in implementing the International Terminal Program. Mr. Pfeiffer was the non-voting moderator of the Committee.
- Ms. Eleanor Johns, member of the Mayor of San Francisco's staff (and is now a member of the San Francisco Airport Commission).
- Mr. Bruce Boudreau, Principal with Leigh Fisher Associates, Inc. Leigh Fisher Associates is a national and international airport-consulting firm headquartered in San Mateo with expertise in airport concession program. Mr. Boudreau previously assisted with the planning of retail and food and beverage concessions for the new International Terminal.

The Advisory Committee considered the following options to determine which would meet the above stated goals:

- Lease extension – extend the master lease with Host.
- Master concessionaire – conduct a selection process for a new master food and beverage concessionaire.
- Developer – select a third-party developer that would lease all of the spaces and sublet spaces to individual operators. The developer would not operate any food and beverage concessions itself.
- Individual direct leasing – multiple leases directly with various food and beverage operators.
- Multi-direct leasing – award a few large leases covering multiple locations.

Mr. Harvey Rose
October 24, 2003
Page 3

- Leasing manager – select a leasing manager to conduct outreach and select tenants on behalf of the Airport.

The Advisory Committee believed strongly that there should be no lease extension with Host International and no holdover of any existing facilities. The Advisory Committee felt that the poor existing conditions, outdated facilities, limited offerings, and high prices would outweigh any benefits from the redeveloped food and beverage program.

After careful consideration and deliberation, the Advisory Committee unanimously recommended that the developer model would best meet the Airport's overall goals and objectives and allow the airport to execute a quality program within the accelerated schedule, without a lease term extension or hold over of Host. The Advisory Committee also collectively concurred that the best approach to select a qualified developer was pursuant to a Request for Qualifications approach, followed by negotiations with the selected operator. This would allow the Airport to bring on a qualified developer quickly and ensure that the successful qualifier could begin immediately to implement the new food and beverage program.

On May 21, 2002, pursuant to Resolution No. 02-0109, the Airport Commission authorized staff to commence the competitive process through a Request for Qualifications to select a qualified developer for the Domestic Terminals Food and Beverage Program Lease. On June 4, 2002, pursuant to Resolution No. 02-0124, the Airport Commission approved the minimum qualification general business terms for the developer agreement.

On July 3, 2002, staff received two submittal packages: one from MarketPlace Development Limited Partnership ("MarketPlace") and one from Westfield Concession Management, Inc. ("Westfield"). Staff reviewed the submittals and found that both met the qualification requirements.

Pursuant to Resolution No. 02-0167, adopted July 23, 2002, the Airport Commission short-listed MarketPlace and Westfield as qualified for this developer lease, and authorized staff to advance to the interview phase. Staff convened a six-member panel to evaluate the submittals based on the specific selection criteria. On July 26, 2002, this six-member panel conducted interviews with MarketPlace and Westfield. Following the review of the submittals and the oral phase of the selection process, MarkPlace was recommended. MarketPlace's experience in implementing the successful program in the International Terminal Building was a consideration in their selection.

On August 6, 2002, pursuant to Resolution No. 02-0180, the Airport Commission authorized staff to negotiate the business terms of a master lease with MarketPlace Development Limited Partnership, the highest ranked qualified developer and to pursue negotiations with Westfield if these negotiations were unsuccessful.

During the course of extensive negotiations with MarketPlace, it became apparent to staff that the cost of MarketPlace's services would reduce revenue to the Airport to an unacceptable level and that the Airport could redevelop the food and beverage facilities on a more cost-effective and timely manner by moving forward under the direct leasing model, rather than a developer model. In a direct leasing model, the Airport (rather than the master tenant/developer) would oversee the outreach and selection of the tenant operators, enter into direct leases with such operators, and thereafter manage such operators. This model would also yield stronger outreach to the DBE operators, greater Airport control, more participation by qualified local operators, and higher financial returns to the Airport.

On November 5, 2002, at the request of Airport staff and pursuant to Resolution No. 02-0226, the Airport Commission rejected the MarketPlace and Westfield qualification submittals and approved the use of a direct leasing model. Also on November 5, 2002, pursuant to Resolution No. 02-0227 and at the recommendation of the Advisory Committee the Airport Commission approved the use of Leigh Fisher Associates as the "Outreach Manager" for the direct leasing program. In connection with this, the existing professional services Contract No. 5000 between Leigh Fisher Associates and the Airport was modified to extend the term of the contract, include the three-year assignment of services under this program, and increase the contract amount by a not-to-exceed $1,334,000 to compensate the firm for their services at "Outreach Manager".

Very truly yours,

David W. Pfeiffer
Associate ~~Deputy~~ Director
Revenue Development

LOG OF DBE *RECERTIFICATIONS* FOR AIRPORT F&B CONCESSIONS

COMPANY NAME	DATE OF DBE CERTIFICATION	DBE RENEWAL DATE
ANDALE SFO Luis Sanchez	09/25/03	09/25/06
FUNG LUM Nigel Pang	9/25/03	9/25/06
LORI'S DINER INTERNATIONAL Man J. Kim	09/15/03	09/16/06
D. LEW ENTERPRISES Carmen Mayo	09/15/03	09/16/06
BAYPORT CONCESSIONS, LLC Miguel Romero	09/15/03	09/16/06
J. AVERY ENTERPRISES (WBE) Avery McGinn	09/15/03	09/16/06
TOMOKAZU JAPANESE CUISINE (SFO), INC. Ring Wong and Francis So	09/08/03	09/12/06
LADY LUCK GOURMET, LLC Marina L. Go	09/08/03	09/12/06
SUSIE LEE TONG ENTERPRISES GOLDEN GATE BAR / SNACK BAR Susanna Tong	07/07/03	08/01/06
H. YOUNG ENTERPRISES Howard N. Young	04/10/03	05/01/06
WSE GROUP Jose Placencia	03/12/03	03/12/06

LOG OF DBE *NEW* CERTIFICATIONS FOR AIRPORT CONCESSIONS

COMPANY NAME	DATE OF DBE CERTIFICATION	DBE RENEWAL DATE
1. SANRAKU JAPANESE RESTAURANT Kimiko Hattori	10/20/03	10/20/06

LOG OF DBE *NEW* Pending CERTIFICATIONS FOR AIRPORT CONCESSIONS

COMPANY NAME	DATE OF DBE CERTIFICATION	
SUBWAY (WBE) Geri & Dan Celestina		
PEET'S COFFEE (WBE) Dayna & Glenn Meyers		
SAN FRANCISCO SOUP COMPANY (WBE) Jennifer & Steve Sarver		
LUNA AZUL Jonathan Leong		
EMPORIO RULLI (WBE) Jeanne & Gary Rulli		

CONCESSIONAIRES WITH *EXPIRED* CERTIFICATIONS

(Existing Tenant pending re-certification)

COMPANY NAME	EXPIRATION DATE
1. FIREWOOD CAFÉ (WBE) Dayna & Glenn Meyers	08/18/00

CONCESSIONAIRES *CERTIFIED BY OTHER AGENCIES*

COMPANY NAME	AGENCY
1. GUAVA & JAVA Rita Bhasker	Washington-Dulles Airport

SFIA Food and Beverage Program
Domestic Terminals

			Fiscal Year				
	2005	2006	2007	2008	2009	2010-2016	Cumulative Revenue
Revenue Master Lease Program	4,563,980	4,723,875	4,889,271	5,060,535	5,237 666	42,170,878	66,646,205
Expenses Master Lease Program	0	0	0	0	0	0	0
Net Revenue Master Lease Program	4,563,980	4,723,875	4,889,271	5,060,535	5,237,666	42,170,878	66,646,205
Revenue Direct Lease Program	3,637,000	5,204,000	5,564,000	5,946,000	6,353,000	57,934,000	84,638,000
Infrastructure/FC Recovery Fees	426,000	968,000	968,000	968,000	968,000	4,840,000	9,138,000
Gross Revenue	4,063,000	6,172,000	6,532,000	6,914,000	7,321,000	62,774,000	93,776,000
Debt Service-Capotal Improvements	-486,000	-972,000	-972,000	-972,000	-972,000	-6,804,000	-11,178,000
Cost of Outreach (1)	-445,000	0	0	0	0	0	-445,000
Net Revenue Direct Lease Program	3,132,000	5,200,000	5,560,000	5,942,000	6,349,000	55,970,000	82,153,000
Gain/Loss in Revenue Vs Master Lease:	-1,431,980	476,125	670,729	881,465	1,111,334	13,799,122	15,506,795

San Francisco International Airport

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San Francisco, CA 94128
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October 27, 2003

Mr. Harvey Rose
Office of the Budget Analyst
1390 Market Street, Suite 1025
San Francisco, CA 94102

Subject: Airport's Domestic Terminals Food and Beverage Redevelopment Program – Tenant Selection Process

Dear Mr. Rose:

The tenant selection process was a competitive proposal process pursuant to Section 2A.173 of the San Francisco Administration Code. The competition was based on the evaluation of proposals according to evaluation criteria established by the Airport Commission in Resolution No. 030034.

The tenant selection was comprised of five separate phases:

I. Outreach
II. Request for Qualification
III. Request for Proposal
IV. Development of the Recommended Slate of Tenants
V. Recommendation, Selection, and Approval

I. Outreach

Pursuant to the Resolution No.03-0034, the Airport Commission authorized an extensive outreach process to encourage a high degree of local business and DBE participation. The outreach process, and the evaluation and selection process, was substantially the same as the process used to select tenants for the highly-regarded International Terminal food and beverage program in 1999. During the outreach phase, the Outreach Manager (Leigh Fisher Associates) conducted an extensive outreach to the San Francisco Bay Area community to provide information on the business opportunities presented by the domestic terminals food/beverage redevelopment program.

Mailings were sent to over 1,800 interested parties who had expressed interest in the earlier International Terminal selection process or who were on the Airport's list of interested parties. This outreach included two informational meetings at the Fairmont Hotel in San Francisco on February 24, 2003 and at the Crown Plaza Hotel in Burlingame on February 25, 2003. Some 200 persons attended the meetings. The

presentations were targeted to restaurant and bar operators who may have not through about an airport location so that they could make an informed opinion on whether to submit the Round I Qualifications Submittal.

Pursuant to the Airport Commission's resolution, the outreach effort was focused on "Target Companies", which was defined as "food and beverage companies, which currently offer established, widely recognized popular and proven national, regional, and local brand names".

To reach out to the local minority communities, an evening meeting was held on March 27, 2003 at the Airport Aviation Museum with the San Francisco Bay Area ethnic chambers of commerce for 85 participants for additional Disadvantaged Business Enterprise (DBE) outreach. The following chambers were invited:

- Chinese Chamber of Commerce,
- Japanese Chamber of Commerce
- San Francisco Black Chamber of Commerce
- San Francisco Hispanic Chamber of Commerce
- Asian Business Association
- San Mateo County Hispanic Chamber of Commerce
- South San Francisco Hispanic Chamber of Commerce

In addition, ads were placed with sixteen outreach publications of which 11 are minority publications such as: Asian Week, Sun Reporter, Nichi Bei, and Tiempo Latino. Press releases were sent to over 70 local/Bay Area media contacts, and many organizations and associations (including minority and women affiliations) were notified of the business opportunities and meetings. These contacts included the ethnic chambers of commerce and the merchant and restaurant associations.

II. Request for Qualifications

On March 25, 2003, pursuant to Resolution No. 03-0034, the Commission approved the minimum qualification requirements, criteria and methodology for selecting tenants for the Program. Each operator was asked to submit a short statement of their qualifications that was reviewed by the Outreach Manager to determine whether the operator satisfied the "Minimum Qualification Requirements" as approved in the above Resolution. These "Minimum Qualification Requirements" are noted below:

- *Experience:* Each operator must have a minimum of three years of experience within the last five years in the ownership or management of a food and beverage business.

- *Revenue Requirement:* Each business must have achieved total annual gross revenues for the applicable category:

Category	Revenue Requirement
Casual Dining/Bar	$750,000
Quick Serve	$500,000
Fast Food	$1,000,000
Specialty Coffee	$500,000
Café	$500,000

A total of 115 companies and individuals responded to the Request for Qualifications. Of this number, it was determined that 101 met the minimum qualifications criteria established by the Airport Commission, and 14 did not. The 101 operators who met the minimum qualifications criteria were invited to participate in the Round II Request for Proposal process and were given the Round II Request for Proposals package.

III. Request for Proposals Phase

The Request for Proposals Package requested each Round II participant to provide background information on its experience and ownership; DBE status/participation; a description of the proposed concept; evidence of financial capability; proposed menus with prices; design information and approach; customer service program; and a five-year business plan.

A total of 86 proposals were received from 39 proposers. A large number of proposals, 17 in all, were submitted by the current master concessionaire, Host International of Bethesda, Maryland, either in its own name or as the leader of a joint venture. Another national operator, Creative Host Services, (no relation to Host International) based in San Diego, submitted 11 proposals in all.

IV. Development of Recommended Slate of Tenants

A "Blue Ribbon" Panel comprising community members with diverse and related expertise was established by the Airport to assist in selecting a "slate" of tenants which would best satisfy the Airport's goals, which included goals for DBE participation (50%) and local participation (80%). In developing the slate, the Food and Beverage Development Team worked with the Blue Ribbon Panel to achieve a mix of recommended tenants that best met the criteria established by the Airport Commission. The evaluation criteria established by the Airport Commission included:

- Experience in restaurant management and ownership
- Strength in management of current operations
- Quality of food
- General reputation of current operations
- Design and maintenance of current operations

- Identification of operation with the San Francisco Bay Area
- DBE status/participation
- Appropriateness of concept, menu, pricing
- Customer service
- Design sensitivity of proposers
- Financial strength (ability to finance improvements and working capital)

Members of the Food and Beverage Development Team, which including consultants and Airport staff, performed due diligence on the operators, including unannounced site visits; kitchen inspections; review of health department records; review of the financial information provided by each proposer to determine capacity to construct the improvements and provide reasonable working capital, reviewed references.
The food and beverage team, including airport staff and consultants, prepared a merchandise plan showing the location of each unit and the category of each unit. This plan was included in the RFP and showed the location and category of spaces in each Lease Package. The Merchandise Plan was also reviewed with the Blue Ribbon Panel, and served as a template for assembling the recommended tenant slate.

Proposers were permitted to propose a specific concept within the category. For example, a proposer could propose a Chinese Quick-Serve concept for a lease package with one (or more) quick-serve location. The proposer could not propose a café or specialty coffee concept for a lease package designated as Quick-Serve.
The RFP provided that a proposer could be offered a location other than the location originally proposed on in order to achieve appropriate balance in the program. For example, there were a large number of proposals received for some of the locations considered to prime, and little or no interest expressed in other locations considered to be less attractive. Based on the Blue Ribbon Panel's instructions, Food and Beverage Development Team members reviewed alternative locations with proposers to determine if they were interested in the alternative locations. These proposers were then instructed to review their business plans and determine if they would be interested in being recommended for that location. Some proposers were willing to accept alternative Lease Packages; others were not. The process was conducted to assemble a slate that would, in the opinion of the Blue Ribbon Panel, best meet the overall program goals consistent with the selection criteria established by the Airport Commission.
All proposers were assumed to have the authority to operate the brands they proposed. It was made clear to all proposers that no lease would be executed with a concept or brand different from the one on which the award was made. Therefore, no proposers would have a reason to propose a brand it could not deliver.

The Blue Ribbon panel felt very strongly that a local coffee concept would better reflect San Francisco and the Bay Area than the Starbucks brand. The Panel was fully informed of the current sales performance demonstrated by the Starbucks brand at SFO. In this case, however, the Blue Ribbon Panel exercised its prerogative to select the

tenants they felt best fit the overall selection criteria established by the Airport Commission. This resulted in the selection of a proposal for a local brand. The Blue Ribbon Panel then recommended one tenants for each of the 28 lease packages.

V. Recommendation, Selection, and Approval

Under the Airport Commission's resolution establishing the program, the role of the Food and Beverage Development Team, the Blue Ribbon Panel, the Airport Director, and the Airport Commission were clearly spelled out. The Food and Beverage Development Team (including the Outreach Manager) conducted due diligence on the proposals and supported the Blue Ribbon Panel. The Blue Ribbon Panel was charged with ***recommending*** a slate of tenants to the Airport Director and the Airport Commission, which could then ***select*** the tenants individually or collectively. Now that the Airport Commission has selected the tenant slate, it has now been submitted to the Board of Supervisors for ***approval.***

There was no opposition to the recommended slate at the Airport Commission meeting and no protests by any unsuccessful proposers. At the meeting, the Hotel Employees and Restaurant Employees Union (H.E.R.E.) Local 340 endorsed the recommended slate.

Very truly yours,

David W. Pfeiffer
Associate Deputy Director
Revenue Development

cc: John L. Martin
Leo Fermin

SFO

San Francisco International Airport

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November 10, 2003

Mr. Harvey Rose
Office of the Budget Analyst
1390 Market Street, Suite 1025
San Francisco, CA 94102

Subject: Budget Analyst's Report on the Airport's Domestic Terminals Food and Beverage Redevelopment Program - Page 15

Dear Mr. Rose:

Because the tiered rent structure and minimum annual guaranteed rent were established in the Request for Proposal (RFP), the revenue to the Airport became a function of selecting the tenants that will produce the highest overall sales for each location. Sales drive revenues; revenues do not drive sales.

The experience of the International Terminal food and beverage program demonstrated clearly that quality, selection and fair pricing are the keys to maximizing sales.

The Blue Ribbon Panel was highly focused on selecting the best proposer for each location, based on the perceived ability of the proposer to produce high sales based on its track record, proposed concept, menu, experience, reputation, business plan, and other information requested in the RFP.

Sincerely,

David W. Pfeiffer
Associate Deputy Director
Revenue Development

cc: John L. Martin
Leo Fermin

Item 3 - File 03-1466

Department: Police Department (SFPD)

Item: Ordinance amending Section 10B.2 of the San Francisco Police Code to authorize an exemption for payment by private parties to the SFPD of an administrative overhead fee, when such private parties request additional Police services if those Police services are normally provided by Police Officers on patrol and if such Police services are provided at least four days a week for a minimum of one year. The proposed exemption would apply unless such additional Police services are provided in conjunction with a City permit or license, or are otherwise necessary to mitigate a negative impact created by the activity of the person, corporation, firm or organization contracting for the additional services.

Description: Currently, private parties, contracting with the Police Department for purposes of obtaining additional Police services, are required to pay the SFPD an administrative overhead fee, pursuant to San Francisco Police Code Section 10B.2, in addition to paying the SFPD for the direct costs of the Police services provided. The current administrative overhead fee was re-established by the Board of Supervisors in July of 2002 (File 02-1082) after having been eliminated by the Board of Supervisors in 2000. For FY 2002-2003, the administrative overhead fee, as previously approved by the Board of Supervisors, was based on the SFPD's departmental overhead costs and Citywide overhead costs.

The administrative overhead rate to be charged by the SFPD, as determined by the Controller and as previously approved by the Board of Supervisors in the City's FY 2003-2004 budget, was 27.31 percent of direct Police services costs for FY 2003-2004. However, according to Captain John Goldberg of the SFPD, effective July 1, 2004, for FY 2003-2004, the Police Department has been charging this fee at a reduced rate of 14.7 percent, based on consultations with the Mayor's Office, contrary to the rate of 27.31 percent as determined by the Controller and as previously approved by the Board of Supervisors in the FY 2003-2004 budget. In accordance with San Francisco

Police Code Section 10B.2 (d), all administrative overhead fees accrue to the City's General Fund.

The proposed ordinance would waive or exempt, certain private parties that contract with the Police Department to obtain additional Police services, from paying the SFPD administrative overhead fee. These private parties would continue to pay for the direct Police service costs incurred by the SFPD. The proposed exemption would apply to private parties that request additional Police services which are normally provided by Police Officers on patrol and have been provided for at least four days every week for a minimum of one year, unless such additional services are provided in conjunction with a City permit or license, or are otherwise necessary to mitigate a negative impact created by the activity of the person, corporation, firm or organization contracting for the additional services.

Comments:

1. According to Attachment I, provided by Captain Goldberg, at this time, the proposed exemption would specifically apply to six private parties which currently contract with the SFPD for additional Police services and which meet the criteria set forth by the proposed ordinance. These six private parties include 1) the Boston Properties/the Embarcadero Center, 2) the Hilton Hotel, 3) the Four Seasons Hotel, 4) the Union Square Business Improvement District (BID), 5) the Urban Pacific Properties, and 6) the Art Institute of California, San Francisco. As shown in Attachment I, the Police Department estimates that the proposed exemption from paying the SFPD administrative overhead fee would result in reduced revenues to the City's General Fund of $112,231 annually, based on the fee, now being charged by the SFPD, of 14.7 percent of direct Police services costs. According to Lieutenant Nicole Greely of the SFPD, the proposed exemption would result in estimated reduced revenues for the remaining seven month period of December 1, 2003 through June 30, 2004 of approximately $65,468. The estimated reduction of $65,468 is approximately 4.5 percent of the $1,470,751 in SFPD's administrative overhead fee revenues budgeted for FY 2003-2004.

Attachment II is a memo provided by Captain Goldberg which explains why these six entities would be entitled to a fee waiver from the SFPD administrative overhead fee. Although Captain Goldberg reports that no other entity would be exempted from paying the SFPD administrative overhead fees at this time, Captain Goldberg reports that, as of November 10, 2003, "the Department is unaware of any other entity that would qualify for a waiver under the proposed ordinance. However, the number of entities that are eligible for the fee waiver could increase or decrease over time."

2. As previously noted, according to Captain Goldberg, the reduction in the administrative overhead fee rate from 27.31 percent to 14.7 percent in FY 2003-2004 was based on discussions with the Mayor's Office due to concerns that the higher overhead rate was not appropriate. However, as previously noted, that reduced rate of 14.7 percent was not determined by the Controller and was not the rate of 27.31 percent as previously approved by the Board of Supervisors in the FY 2003-2004 budget. According to Captain Goldberg, the higher rate of 27.31 percent captures all of the SFPD's fixed and incremental administrative costs whereas the lower rate of 14.7 percent captures only the incremental costs of providing the direct Police services to private parties.

3. According to Mr. Todd Rydstrom of the Controller's Office, the FY 2003-2004 budgeted revenues of $1,470,751, for the SFPD administrative overhead fee, which accrue to the City's General Fund, were based on an administrative overhead fee rate of 27.31 percent of direct Police services costs. That rate of 27.31 percent, which was to be charged by the SFPD in FY 2003-2004, was the rate that was reviewed and certified by the Controller during the FY 2003-2004 budget process. Accordingly, since the actual rate being charged is 14.7 percent, the Controller estimates that there currently exists a projected FY 2003-2004 revenue shortfall of $679,098. The Budget Analyst notes that the projected revenue shortfall for FY 2003-2004 of $679,098, as estimated by Mr. Rydstrom, would be increased by an

estimated $65,468 to $744,566 if the exemption under the proposed ordinance is approved.

4. According to Ms. Katie Petrucione of the Mayor's Budget Office, the SFPD's administrative overhead fee rate was reduced from 27.31 percent to 14.7 percent because the lower overhead fee rate of 14.7 percent is more appropriate. Although, as previously noted, the revenues approved by the Board of Supervisors in the SFPD FY 2003-2004 budget were based on the higher rate of 27.31 percent, according to Ms. Petrucione, the administrative overhead fee rate can be adjusted by the Police Department without obtaining prior approval from the Board of Supervisors, pursuant to language in the Police Code Section 10B.2, which states "The payment shall be computed...with an administrative overhead charge to cover the proportionate percentage of the Department's administrative costs that are attributable in the Department's reasonable discretion to the work performed pursuant to the request." Accordingly, Ms. Petrucione reports that the administrative overhead fee was reduced by the Police Department in consultation with the Mayor's Office. Ms. Petrucione confirmed that the lower administrative overhead fee rate of 14.7 percent is based on incremental costs of providing additional Police services to private parties, whereas the higher administrative overhead fee rate of 27.31 percent is based on SFPD's fixed administrative costs and incremental costs.

Recommendation: Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

Estimated Annual Reduction in Revenue from the Proposed Fee Waiver*

Boston Properties/Embarcadero Center	$39,986
Hilton Hotel	$24,607
Four Seasons	$18,455
Union Square BID	$15,379
Urban Pacific Properties	$7,960
Art Institute	$5,844
Estimated annual reduction	**$112,231**

*File 03-1466

POLICE DEPARTMENT
CITY AND COUNTY OF SAN FRANCISCO
THOMAS J. CAHILL HALL OF JUSTICE
850 BRYANT STREET
SAN FRANCISCO, CALIFORNIA 94103-4603

ALEX E. FAGAN
CHIEF OF POLICE

November 10, 2003

Mr. Harvey M. Rose
Board of Supervisors
Budget Analyst
1390 Market Street, Suite 1025
San Francisco, CA 94102

Re: File 03-1466

Dear Mr. Rose,

The Police Department believes that the proposed legislation to amend San Francisco Police Code Section 10B.2 to create an exemption for payment of an administrative fee would result in a fee waiver for six entities that currently contract for police services.

These entities would be entitled to the fee waiver as they have contracted with the Police Department for supplemental services that are patrol type in nature and the services are requested at least four days per week, for a period in excess of one year.

The majority of contracted services would continue to pay the administrative fee as most fail to meet all three components, required for a waiver, in the proposed ordinance:

- General patrol type duties
- Four days per week
- A period in excess of one year.

Most contracted services are for a specific event, such as a marathon or a bike race. These are one-day events and fail to qualify under both the time requirement and the requirement that the services are of a general patrol type function. Similarly, supplemental law enforcement services for construction zones and for the film industry also fail to qualify for the same reasons. In the case of the City's professional sports franchises, their seasons are less than one year and the Department generally provides supplemental services only on game days. Neither the Giants nor the 49ers play four days per week throughout the year.

Mr. Harvey Rose
November 10, 2003
File: 03-1466
Page 2

As of this writing, the Department is unaware of any other entity that would qualify for a waiver under the proposed ordinance. However, the number of entities that are eligible for the fee waiver could increase or decrease over time.

Should you have questions or concerns I ask that you contact me at 553-1039.

Very truly yours,

John R. Goldberg
Commanding Officer
Fiscal Division

Item 4 – File 03-1703

.Department:	Public Library San Francisco Unified School District (SFUSD)
Item:	Resolution approving four Joint Use Cooperative Agreements between the San Francisco Library and the San Francisco Unified School District for the purposes of obtaining State Proposition 14 grant monies to assist in the financing of the construction of the Ingleside, Portola, Visitacion Valley, and Ortega Branch Libraries.
Term of the Agreements:	20 years

Description:

According to Ms. Susan Hildreth of the Public Library, there is currently State funding available for the construction and renovation of local library facilities from $350 million in State General Obligation bonds, approved by California voters on March 7, 2000, as Proposition 14, the "California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000".

In addition, on November 7, 2000, San Francisco voters approved Proposition A, Branch Library Facilities Improvement Bonds, 2000, which authorized the City to issue up to $105,865,000 in General Obligation bonds to 1) renovate 19 of the 26 Public Library's existing branch libraries, 2) acquire land and construct new branch libraries for four of the 26 existing branches libraries currently operating in leased facilities, and 3) construct one new Mission Bay Branch Library.

As explained in Attachment I provided by Ms. Hildreth, "first priority" funding would be granted by the State to local libraries to construct new local library facilities, from State Proposition 14 funds, if the local jurisdiction executes Joint Use Cooperative Agreements for eligible projects including computer centers, family literacy centers, homework centers, career centers, shared electronic and telecommunication library services, and specialty learning centers. Ms. Hildreth advises that the designation of a project as "first priority" will enhance the competitiveness of the project's State ranking for funding. To qualify for first priority funding for State

Proposition 14 monies, Ms. Hildreth advises that four Joint Use Cooperative Agreements between the Public Library and the SFUSD have been negotiated, including agreements for 1) the Ingleside Branch Library and Aptos Middle School, 2) the Portola Branch Library and Martin Luther King, Jr. Middle School and E.R. Taylor Elementary School, 3) the Visitacion Valley Branch Library and Visitacion Valley Middle School and Visitacion Valley Elementary School, and 4) the Ortega Branch Library and A.P. Giannini Middle School and Sunset Elementary School to establish family literacy centers and homework centers. Ms. Hildreth advises that the family literacy centers and homework centers, as described in Attachment II, would be located at the new Ingleside Branch Library, the new Ortega Branch Library, the new Portola Branch Library, and the new Visitacion Valley Branch Library, all of which would be partially constructed using State Proposition 14 funds. Ms. Hildreth advises the Public Library would use State Proposition 14 funds to cover approximately 65 percent of the total construction costs for those four branch libraries, and would use the local Proposition A Branch Library Facilities Improvement Bond funds to cover the remaining 35 percent of the construction costs, as shown in Attachment III provided by Ms. Hildreth.

The proposed resolution would approve four Joint Use Cooperative Agreements between the San Francisco Public Library and the SFUSD to establish family literacy centers and homework centers in the four new branch libraries noted above, in order to satisfy the criteria for San Francisco to receive first priority funding from State Proposition 14 funds. According to Ms. Hildreth, the SFUSD Board of Education and the Library Commission have previously approved the four Joint Use Cooperative Agreements.

As explained in Attachment IV provided by Ms. Hildreth, operating and staffing costs for both the family literacy centers and the homework centers will be supported through the Library Preservation Fund. Ms. Hildreth advises that the SFUSD would be responsible for cooperating with the Public Library in promoting the family literacy center and homework center services, which are to be provided to students and SFUSD staff.

Comments:

1. As stated in Attachment IV provided by Ms. Hildreth, the proposed Joint Use Cooperative Agreements "will be put into place only if the grant funds for the projects are obtained by the City".

2. Ms. Hildreth advises that by mid-December of 2003, the Public Library intends to submit four grant applications to the State, each of which will be subject to Board of Supervisors approval, in order to obtain the State Proposition 14 funds, for the amounts shown in Attachment III, totaling $14.2 million for the four Branch Libraries noted above. These grant applications will be submitted to the State subsequent to the approval by the Board of Supervisors of the four subject proposed Joint Use Cooperative Agreements.

Recommendation: Approve the proposed resolution.

SECTION 20434. FUNDING PRIORITIES

(a) New public library project priorities

(1) **First priority for new public library facilities: joint use projects**
As specified in Education Code section 19994 (a) (1), first priority for new public libraries shall be given to joint use projects in which the agency that operates the library and one or more school districts have a cooperative agreement. [See sections 20440 (d) (1) and Appendix 2 for information about Cooperative Agreements.]

Joint use projects shall be one of two types:

(A) **Co-located library [See "Co-located library" definition in section 20430 (k)]**

(B) **Joint venture projects [See "Joint venture project" definition in section 20430 (ee)]**

Joint venture projects shall provide one or more of the following services:

1. **Computer center**
A computer center houses computer systems with electronic resources or other educational technologies to assist with any combination of K-12 student learning activities. Services shall include one or more of the following:

a. A range of computer literacy classes covering introductory to advanced skill levels.

b. Access to the computer resources, including the Internet, for both public and student clienteles.

c. Computer literacy activities for students and their families or caregivers.

d. Distance learning equipment and staff to enable online instruction and other forms of educational interaction with distant communities, individuals, or institutions.

2. **Family literacy center**
A family literacy center houses materials and space for tutoring and instructional activities to improve the ability of K-12 students and their parents or caregivers to read and write English and to develop lifelong learning skills. Activities shall include one or more of the following:

a. One-to-one tutoring, either personal or online.
b. Small group instruction.
c. Reading and writing instruction.
d. Computers with software to improve reading and writing skills.
e. Literacy programming for students and their families or caregivers.
f. After-school literacy programming for students.

3. **Homework center**
A homework center houses space to provide materials and formal support to assist K-12 students with homework and/or study assignments. Support shall focus on the needs of students including either general assistance in reading, writing, science, language, math skills, and study skills, or individual student assignment assistance, or both. Services shall include one or more of the following:

a. Specialized print and electronic resource collections responsive to curriculum needs, including designated computer time for student homework needs.

b. Peer and/or adult assistance, either paid or volunteer.

c. Instruction in research and study skills.

d. Provision of appropriate support tools such as bibliographies, listing of web sites, and pathfinders.

e. After-school computer or language literacy activities.

f. Temporary reserve or limited circulation collections in response to teacher requests.

4. **Career center**
A career center houses space to provide job, career, and college education information to assist K-12 students in assessing and pursuing vocational and career choices. Information formats shall include any combination of print, electronic, and audiovisual resources. Service shall include one or more of the following:

a. Resources providing information on various careers and vocations, future opportunities, and the necessary associated job skills and/or education.

b. Career counseling assistance, either paid or volunteer.

c. Information on available training programs and available jobs.

d. Résumé assistance, online job posting, and interview training.

e. College-preparation programs, including scholarship information, college application assistance, college entrance exam preparation, and college essay and résumé preparation.

5. **Shared electronic and telecommunication library services**
Shared library electronic and telecommunication services provide for the sharing of electronic equipment and resources that complement the curriculum of K-12 students. Services shall include one or more of the following:

a. Wide-area network between the public library and public school(s).

b. Collaborative electronic resource database licenses and related training.

c. Collaborative catalog access and shared circulation systems and related training.

6. **Subject specialty learning centers**
Subject specialty learning centers house a comprehensive, in-depth collection of resources and learning activities on a specific subject area that complements the curriculum of the school district that is a part of the joint use cooperative agreement.

7. **Other library services**
Other similar collaborative library services that directly benefit K-12 students.

(2) **Second priority for new public library facilities: all others**
As specified in Education Code section 19994 (a) (2), all other new public library projects shall be given second priority.

(b) **Priorities for remodeling existing public library facilities owned by the applicant jurisdiction**

(1) Remodeling first priority
As specified in Education Code section 19994 (b) (1), to be considered for first priority funding, a project to remodel an existing public library building owned by the applicant jurisdiction shall be within the attendance area of a public elementary, middle, or high school that, at the time of application, is identified as having inadequate infrastructure to support access to computers and other educational technology.

(A) If the project is located in the attendance area of more than one public school, the applicant may select any one of the schools with inadequate infrastructure.

(B) The applicant shall submit with the Application Form:

1. A letter from the public school district superintendent verifying that at the time of the Board's application deadline:

a. The project site is located within the attendance area of the identified public school.

b. None of the public school buildings at the identified public school has an incoming telecommunication connection greater than 512 thousand bits per second (512K bps).

2. A copy of the public school attendance area map showing that the public library project site is within the attendance area.

Section 20440: Appendix 2

Required Elements for Joint Use Cooperative Agreements

As required in section 20440 (d) (1), applicants with joint use projects shall submit a copy of the cooperative agreement between the public library and the public school district(s) that includes the following elements:

1. A definition of the roles and responsibilities of each party with respect to funding, staffing, supervision, operation, management, and others as applicable.

2. A description of the joint library services and how they will be provided.

3. The library hours of service for the public and for students.

4. The number and classifications of staff members.

5. The use of volunteers, if any.

6. Identification of the location of the proposed joint use project.

7. Ownership of the site, facility, furnishings, equipment, and library materials.

8. All sources and uses of funding.

9. Responsibility for facility operation, maintenance, and management.

10. Review and modification process for the conditions of the agreement.

11. Field Act applicability to the project:

    a. A statement that the project will or will not be subject to the Field Act.

    b. The rationale for the determination regarding the Field Act applicability.

12. A 20-year commitment to providing joint use library services consistent with the intent of the cooperative agreement.

13. Acknowledgment and incorporation of Education Code section 19999 and section 20440 (e) (3) (G) of these regulations which requires the provision of public library direct services for 40 years.

SFPL/SFUSD JOINT-USE AGREEMENTS

These agreements have been developed to insure that Proposition 14 project applications for new facilities will be considered as first priority projects. Please see the attached portion of Proposition 14 regulations that outlines types of activities for these projects. These joint-use projects include:

- Computer center
- Family literacy center
- Homework center
- Career center
- Shared electronic and telecommunication library services
- Subject specialty learning centers

The joint-use projects that SFPL and SFUSD have selected are further defined below:

- Family literacy center – A family literacy center houses materials and space for tutoring and instructional activities to improve the ability of K-12 students and their parents or care-givers to read and write English and to develop lifelong learning skills
- Homework center – A homework center houses space to provide materials and formal support to assist K-12 students wit homework and/or study assignments. Support staff shall focus on the needs of students including either general assistance in reading, writing, science, language, math skills and study skills, or individual student assignment assistance, or both.

These agreements will become effective if SFPL receives Proposition 14 funding for these projects and when the new branches are completed. Participating branches and schools and anticipated effective dates are listed below:

Branch Library	Schools
Ingleside Branch – Fall 2007 1298 Ocean Ave. at Plymouth	Aptos Middle School 105 Aptos Ave.
Ortega Branch – Spring 2008 3233 Ortega St. at 39th Ave.	A.P. Giannini Middle School – 3151 Ortega Ave. Sunset Elementary – 1950 41st Ave.

Portola Branch – Spring 2007 380 Bacon St. at Goettingen	MLK Middle School – 350 Girard E.R. Taylor Elementary – 423 Burrows
Visitacion Valley Branch – Fall 2007 201 Leland Ave. at Rutland	Vis Valley Middle School – 450 Raymond Ave. Vis Valley Elementary School – 55 Schwerin

From: Susan Hildreth/PUBLIB/SFGOV
To: Leanne Nhan
Date: Friday, November 07, 2003 12:34PM
Subject: Joint use info

SFUSD Reso - 38-26Sp4

Library Commission Resos
Ingleside - 5-03
Ortega - 6-03
Portola - 1-03
Vis Valley - 7-03

Info re grants		Total	Local 35%	State 65%
Ingleside	6,000 sf + site	$4.8M	$1.7M	$3.1M
Ortega	8.500 sf, no site costs	$5.2M	$1.8M	$3.4
Portola	6,000 sf + site	$4.4M	$1.5	$2.9
Vis Valley	8,500 sf + site	$7.4M	$2.6	$4.8

Please note that these are estimated costs. Susan

Memorandum

To: Harvey Rose, Budget Analyst

From: Susan Hildreth, City Librarian

Re: Joint-use Agreements with San Francisco Unified School District (Item # 031703)

Date: November 12, 2003

Four joint-use agreements have been drafted with the San Francisco Unified School District (SFUSD). These joint-use agreements have been developed in support of the City's Proposition 14 applications for new library construction in four neighborhoods. The development of a joint-use agreement is a key factor in the competitiveness of project applications. These agreements build upon the existing, strong cooperative relationship between the San Francisco Public Library (SFPL) and SFUSD. The agreements will not result in any additional funding requirements for SFPL or SFUSD and build upon existing service investments as well as in-kind efforts from both jurisdictions. These agreements will be put into place only if the grant funds for the projects are obtained by the City.

The agreements will allow the City to submit its applications for these projects as "first priority". The State regulations for Proposition 14 define two categories of projects – new construction or renovation. The priorities are as follows:

New construction

- First priority – project that is co-located with a public school or has a joint-use cooperative agreement with a public school
- Second priority – project that is not co-located or does not have a joint-use cooperative agreement (none of these projects have been funded in Cycle 1 or 2)

Renovation

- First priority – project that is located in a public school service area that has inadequate technology infrastructure (No school in SFUSD does not meet the definition of inadequate technology infrastructure)
- Second priority – project that is located in a public school service area that has adequate technology infrastructure (Richmond Branch Library

The designation of a project as "first-priority" will enhance the competitiveness of its ranking. This is an extremely competitive process; in Cycle 2, there were $548 million worth of projects submitted and only $108.2 million in projects was awarded. Proposition 14 tends to favor new construction projects which puts urban areas at a disadvantage because many urban projects are renovations of existing buildings.

Operating and staffing costs for both the family literacy centers and the homework centers at the new branches will be supported through the Library Preservation Fund, which is comprised of the Library's dedicated share of the property tax ($.025 per $100 assessed valuation) and a formula-driven share of the General Fund based on baseline costs in 1992/93.

In each of the new branches, the Library is planning to increase the current Youth Services Librarian positions from part-time to full-time or from less-than part-time to part-time (please see the following chart). The increase in these positions would occur even if the joint-use agreements are not enacted because the activity and size increase from the current rented facilities to the new proposed facilities warrants additional staff. There is no need to increase the staffing at the Ortega Branch as they currently have 1.4 FTE Youth Services Librarians and we are have a City-owned facility in place. It is estimated that these increases will occur as a result of redeployment of current staff and will not result in incremental additional cost to the Library.

Branch	Current Youth Libn.	Proposed Youth Lib.	Additional Annual $
Ingleside	.4125 Youth Libn.	1.0 Youth Libn.	$34,659
Portola	.2 Teen Librarian	.5 Teen Librarian	$32,447
	.34 Children Libn.	.5 Children Libn.	$16,813
Visitacion Valley	.2 Teen Librarian	.7 Teen Librarian	$44,246
	.4 Children Libn.	.5 Children Libn.	$5,900
Totals	1.55 FTE Librarian	3.2 FTE Librarian	$134,065

Also, the buildings are being designed with program rooms that will facilitate the execution of the family literacy and homework center programs, but the program rooms would be included in the building design even if the joint-use agreements are not executed and would be used for other library and community programming. Costs for materials for the joint-use programs will be included in the materials budgets for the branches and would be purchased for general use even if the joint-use agreements are not executed.

Item 5 – File 03-1340

Department: Department of Public Works (DPW)

Item: Hearing to consider the release of $2,750,216 of Federal grant funds previously reserved by the Finance Committee of the Board of Supervisors.

Amount: $2,750,216

Source of Funds: U.S. Department of Transportation, Federal Highway Administration (FHWA) Transportation Equity Act for the 21st Century (TEA21) Demonstration Program.

Description: On November 15, 2002, the Board of Supervisors approved a resolution authorizing the Director of the Department of Public Works to accept and expend up to $9,375,000 in Federal grant funds (File 02-1647), to undertake environmental studies for and design of the Bayview Transportation Improvements Project, a project to build a new access route linking the Hunters Point Shipyard to U.S. Highway 101. Of the up to $9,375,000 in Federal grant funds, the Finance Committee authorized $1,877,109 for expenditure for environmental studies, and the balance of $7,497,891 was placed on reserve, pending identification of the environmental consultant and submission to the Finance Committee of budget details including estimated hours and hourly rates. Attachment I is a memorandum, provided by Ms. Tina Olson containing additional information pertaining to the Federal funds.

Under the Bayview Transportation Improvements Project, a proposed new access route would be constructed, consisting of either a new bridge or a new surface roadway linking the Hunters Point Shipyard to U.S. Highway 101. Ms. Anna LaForte of the DPW states that the proposed new access route which would cover approximately 1.5 miles, would result in (a) the redirection of trucks and other vehicle traffic away from local residential streets, (b) a convenient access to Hunters Point Shipyard from U.S. Highway 101, and (c) the creation of a transit right-of-way through the new

access route that accommodates the future extension of the Muni's 3rd Street Light Rail to the Hunters Point Shipyard.

Ms. LaForte states that if the bridge alternative is selected, the project is estimated to cost between $110 million to $150 million; if a surface roadway alternative is selected, the project is estimated to have a maximum cost of $110 million. Ms. LaForte reports that one of these two alternatives would be subject to approval by the Board of Supervisors after the scientific studies are complete, which is anticipated to be in December of 2004. Ms. LaForte advises that none of the funding sources to construct the proposed new access route have been identified as of the writing of this report.

This $2,750,216 requested release of previously reserved Federal funds would be used to pay for a portion of the project's total cost to conduct environmental studies estimated at $5,059,600 (see Comment No. 2). The environmental studies for the Bayview Transportation Improvements Project would include a formal environmental review process required by State and Federal law that would produce an Environmental Impact Report (EIR) and an Environmental Impact Statement (EIS). The proposed release of $2,750,216 would pay for a portion of the estimated cost of $5,059,600 to conduct the environmental studies which include studies of traffic, wetlands, habitats, floodplains, water quality, air quality, noise, cultural resources, and the Bay Trail, according to Ms. LaForte. Ms. LaForte reports that the DPW estimates that the consultant will begin the environmental studies in late November of 2003 and the environmental studies will be completed by December of 2005. Ms. LaForte further reports that the consultant will have limited involvement in the design and construction phases of the project anticipated to begin in January of 2006 and end as late as 2015.

Budget: Attachments II and III, provided by the DPW, contain a budget for the $5,059,600 total cost for the environmental studies, including $2,199,600 for the work to be done by an outside consultant and $2,860,000 for the work to be done on an in-house basis by DPW staff and other City employees.

Comments:

1. According to Ms. LaForte, based on Caltrans' formula to distribute federal funds, $8,795,355 or 93.8 percent of the up to $9,375,000 grant amount from the FHWA, previously approved by the Board of Supervisors for environmental studies and design for the new access route, is currently available to the DPW.

Ms. LaForte states that of the $1,877,109 in FHWA funds previously authorized for expenditure by the Board of Supervisors, $1,297,464 is available to the DPW for environmental studies, based on the total maximum amount of available grant funds of $8,795,355. The $1,297,464 in previously released grant funds plus the $2,750,216 requested to be released, or a total of $4,047,680, is 80 percent of the total estimated cost of the $5,059,600 for environmental studies. The balance needed of $1,011,920 would be funded from a 20 percent required local match (see Comment No. 2 below).

2. According to Ms. LaForte, of the $1,011,920 in required local matching funds, $420,000 was included in the San Francisco Redevelopment Agency's (SFRA) FY 2002-2003 and FY 2003-2004 budget, as previously approved by the Board of Supervisors. Ms. LaForte reports that the source of the remaining $591,920 ($1,011,920 less $420,000) has not yet been identified, but the DPW anticipates that the SFRA's FY 2004-2005 budget or other grant sources will provide such funds. Attachment IV provided by Ms. LaForte contains an estimated timetable for when all amounts will be needed to complete the project by December of 2005.

3. According to Ms. LaForte, the DPW selected Bayview Transportation Consultants (BTC), a Joint Venture consisting of two firms, Jones and Stokes and Carter and Burgess to conduct the environmental studies.

4. Ms. LaForte advises that the Joint Venture was selected through a Request for Qualifications (RFQ) process. As previously noted, the cost for the outside consultant work is $2,199,600 as shown in Attachment II. Attachment V, provided by Ms. LaForte contains the estimated hour and hourly rates of the Joint Venture and

the 10 subconsultants to the Joint Venture. Attachment V also contains a list of the 31 firms that were contacted by the DPW to respond to the DPW RFQ process. Attachment VI provided by Ms. LaForte explains the DPW RFQ process and the basis for selecting the Bayview Transportation Consultants, Joint Venture. Attachment VI states that,

> DPW followed federal and state laws, and local guidelines when we did not consider price as a selection factor for the environmental consultants for the Bayview Transportation Improvements Project...To assure competitive contract prices, the City requested cost estimates by task in sealed envelopes at the time of the oral interviews. In accordance with State and Federal requirements, the envelopes were only opened after the selection panel ranked the firms on qualification and experience. The price that DPW negotiated with BTC is below the average and the median of the 5 firms' estimates.

Recommendation: Approve the requested release of reserved funds in the amount of $2,750,216.

City and County of San Francisco

Willie Lewis Brown, Jr., Mayor
Edwin M. Lee, Director

(415) 558-4000
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http://www.sfdpw.com

Department of Public Works
Finance and Budget Division
30 Van Ness Avenue, 5th Floor
San Francisco, CA 94102

Tina Olson, Division Manager

To: Harvey Rose
Budget Analyst

From: Anna LaForte
Transportation Finance Analyst AKL

Date: November 12, 2003

Re: Release of Reserves for environmental studies for the Bayview Transportation Improvements Project

This memorandum responds to your inquiry as to how the reserve amount was determined, how much of the Federal grant has been spent to date and for what purpose, and why DPW did not spend the amount we had anticipated spending in FY 2002-03.

When the Finance Committee reviewed the accept and expend resolution for the $9,375,000 in Federal Demonstration Funds last November, DPW anticipated that the environmental consultant would cost $9,372,364. However, we did not have a clear picture of what environmental studies were required for the project which meant we were not able to determine the budget for the environmental review phase. As a result, the Finance Committee placed on reserve 80 percent or $7,497,891 of the anticipated consultant cost. The federal grant covers 80% of project costs. The Finance Committee authorized DPW to spend the unreserved portion of $1,877,109 in order to initiate the project.

Last November, DPW reported to the Budget Analyst that we anticipated spending $900,000 on the project in FY 2002-03. Since May 7, 2003, when DPW started spending project funds, we have spent $281,171. This amount includes $224,937 or 80 percent spent from Federal Demonstration Funds and $56,234 or 20 percent spent from SFRA matching funds. Expenditures to date have been on DPW and DPT labor. These expenditures were for work related to the Preliminary Environmental Studies Form, preparation of the RFQ, project management, surveying truck traffic activity, and development of base maps outlining possible route alternatives.

The project was delayed, in large part, because of staffing changes here at DPW. The previous Project Manager left DPW in December 2002. The new Project Manager, Peg Divine, joined DPW in February 2003. Ms. Divine is also responsible for managing the 4th Street Bridge project that began construction in April 2003 and therefore required immediate attention. As a result, DPW initiated the Bayview Transportation Improvements Project later than originally planned.

Bayview Transportation Improvements Project - Planning Phase
Scope of Work and Cost Estimate

NO.	SCOPE OF WORK	COST FOR SERVICES ($)		
		CITY	CONSULT.	TOTAL
1	Review Existing Information	2,000	22,419	24,419
2	Alternatives Analysis Report	110,000	24,878	134,878
3	Preliminary Civil Engrng.			
	a. Roadway Design	45,000	30,782	75,782
4	Bridge and Arch. Conceptual Engineering including accommodation of MUNI LRV		99,297	99,297
	a. DPW	20,000	-	20,000
	b. MUNI	30,000		30,000
5	Traffic Studies including pedestrians, signals, bike and transit	130,000	24,490	154,490
6	Write Purpose and Need	1,500	36,656	38,156
7	Public Scoping Meeting Support	1,000	45,257	46,257
8	Hazardous Materials and Maher Ordinance Compliance Studies (DPH and DPW)	50,000	177,143	227,143
9	Geotechnical Studies and Landslide Setting Information	20,000	116,789	136,789
10	Hydraulic Studies and Flood Plain Analysis	5,000	26,374	31,374
11	Bridge Hydraulic Studies	5,000	12,896	17,896
12	Water Quality Studies	10,000	62,161	72,161
13	Air Quality Studies	2,000	31,580	33,580
14	Studies of Noise and Vibration from Construction and Traffic	3,000	29,752	32,752
15	Study of Effect on Highways, Parks, and Recreation		18,740	18,740
	a. Study of effect on highways	500	-	500
	b. 4 (f) and 6 (f) determination	15,000	-	15,000
	c. Encroachment of State Lands	5,000	-	5,000
16	Biology, Wetland and Tidal Area Studies	3,000	52,414	55,414
17	Cultural Resources, Historic Property Survey, and Archaeological Invest.	10,000	118,840	128,840

Bayview Transportation Improvements Project - Planning Phase
Scope of Work and Cost Estimate

NO.	SCOPE OF WORK	COST FOR SERVICES ($)		
		CITY	CONSULT.	TOTAL
18	Visual and Aesthetic Impact Studies	10,000	1,908	11,908
19	Social and Economic Impact Analysis	2,000	14,770	16,770
20	Land Use, Zoning, Housing and Growth Inducement Analysis	1,000	27,491	28,491
21	Regulatory Agencies, Permit Analysis and Preparation	30,000	-	30,000
22	Water, Sewer, Gas, Electric, Phone, Cable, and Utilities Analysis			
	a. AWSS	6,000	-	6,000
	b. Other utilities	40,000	-	40,000
23	Environmental Regulatory Agency Meetings	25,000	17,077	42,077
24	Report Preparation	40,000	301,986	341,986
25	Public Hearings	3,000	96,315	99,315
26	Quality Control	20,000	61,330	81,330
27	Environmental Compliance Monitoring	1,000	5,038	6,038
28	Independent Cost Estimating Check	-	13,385	13,385
29	Right-of-Way Studies and Estimates	12,000	63,256	75,256
30	Other			
	a. SFRA review consultant work	97,000	-	97,000
	b. City planning review fees including Master Plan Consistency	250,000	-	250,000
	c. Real Estate	50,000	-	50,000
	d. Survey	60,000	-	60,000
	e. City Attorney	60,000	-	60,000
	f. Project Management	1,025,000	283,568	1,308,568
	g. Admin. Support		153,768	153,768
	SUBTOTAL	2,200,000	1,970,360	4,170,360
	CONTINGENCY (30% for City Labor, 11.6% for Consultants)	660,000	229,240	889,240
	TOTAL	2,860,000	2,199,600	5,059,600

Bayview Transportation Improvements Project
Cost Estimate for Budget Analyst

NO.	TASK	TITLE	CLASS	HOUR	RATE ($/HOUR)	SUBTOTAL ($)	TASK TOTAL ($)
1	Review Existing Information	1. Capital Planning Manager	9398	322	120	1,000	
		2. Assist. Project Manager	5207	322	103	300	
		3. Project Engineer	5207	588	103	700	
							2,000
2	Alternatives Analysis Report	1. Sr. Project Manager	5212	322	138	7,700	
		2. Capital Planning Manager	9398	322	120	44,000	
		3. Project Engineer	5207	588	103	36,300	
		4. Civil Engineer	5241	322	119	8,800	
		5. Assist. Engineer	5203	322	87	5,500	
		6. Sr. Project Manager (SFRA	-	322	134	2,200	
		7. Sr. Civil Engineer (SFRA)	-	588	130	5,500	
							110,000
3	Preliminary Civil Engrng. a. Roadway Conceptual Design	1. Civil Engineer	5241	322	119	9,000	
		2. Assist. Engineer	5203	322	87	15,750	
		3. Others	5241	588	119	20,250	
							45,000
4	Bridge and Arch. Conceptual Engineering including accommodation of MUNI LRV						
	a. DPW	1. Sr. Structural Engineer	5211	322	138	1,600	
		2. Structural Engineer	5241	322	119	16,400	
		3. Architecture	5268	588	116	2,000	
							20,000
	b. Muni	1. Project Manager	5504	322	130	4,500	
		2. Civil Engineer	5241	588	119	25,500	
							30,000
5	Traffic Studies including pedestrians, signals, bike and transit	1. Planner V	5283	322	98	31,556	
		2. Planner IV	5290	588	82	48,216	
		3. Assist. Traffic Engineer		804	58	46,632	
		4. Capital Planning Manager	9398	63	120	7,600	
		5. Others				17,516	
							151,520
6	Write Purpose and Need	1. Sr. Project Manager	5212	1	138	200	
		2. Capital Planning Manager	9398	9	120	1,050	
		3. Sr. Project Manager (SFRA	-	1	134	100	
		4. Project Manager (SFRA)	-	1	130	150	
							1,500
7	Public Scoping Meeting Support	1. Capital Planning Manager	9398	8	120	950	
		2. Sr. Clerk Typist	1426	1	53	50	
							1,000
8	Hazardous Materials and Maher Ordinance Compliance Studies	1. Sr. Project Manager	5212	18	138	2,500	
		2. Capital Planning Manager	9398	37	134	5,000	
		3. Sr. Project Manager (SFRA	-	19	134	2,500	
		4. Project Manager (SFRA)	-	8	130	1,000	
		5. Sr. Env. Scientist	9398	49	134	6,500	
		6. Env. Scientist		250	130	32,500	
							50,000
9	Geotechnical Studies and Landslide Setting Information	1. Sr. Project Manager	5212	7	138	1,000	
		2. Sr. Civil Engineer (SFRA)	-	7	134	1,000	
		3. Assoc. Engineer	5207	175	103	18,000	
							20,000
10	Hydraulic Studies and Flood Plain Analysi	1. Engineer	5241	42	119	5,000	
							5,000
11	Bridge Hydraulic Studies	1. Engineer	5241	42	119	5,000	
		2. Sr. Civil Engineer (SFRA)					
							5,000
12	Water Quality Studies	1. Capital Planning Manager	9398	83	120	10,000	
							10,000
13	Air Quality Studies	1. Capital Planning Manager	9398	14	120	1,700	
		2. Sr. Project Manager (SFRA	-	1	134	100	
		3+C154. Project Manager (SF	-	2	130	200	
							2,000

Bayview Transportation Improvements Project
Cost Estimate for Budget Analyst

NO.	TASK	TITLE	CLASS	HOUR	RATE ($/HOUR)	SUBTOTAL ($)	TASK TOTAL ($)
14	Studies of Noise and Vibration from Construction and Traffic	1. Capital Planning Manager	9398	18	120	2,160	
		2. Inspector	6318	5	90	450	
		3. Project Manager (SFRA)	-	1	130	150	
		4. Sr. Project Manager	5212	2	138	240	
							3,000
15	Study of Effect on Highways, Parks, and Recreation						
	a. Study of effect on highways	1. Capital Planning Manager	9398	4	120	500	
							500
	b. 4 (f) and 6 (f) determination	1. Sr. Project Manager	5212	11	138	1,500	
		2. Capital Planning Manager	9398	90	120	10,800	
		3. Sr. Project Manger (SFRA)	-	11	134	1,500	
		4. Project Manager (SFRA)	-	3	130	450	
		5. City Attorney				750	
							15,000
	c. Encroachment of State Lands	1. Sr. Project Manager	5212	2	138	250	
		2. Real Estate				250	
		3. City Attorney				600	
		4. Others				3,900	
							5,000
16	Biology, Wetland and Tidal Area Studies	1. Capital Planning Manager	9398	25	120	3,000	
							3,000
17	Cultural Resources, Historic Property Survey, and Archaeological Invest.	1. Sr. Project Manager	5212	9	138	1,200	
		2. Capital Planning Manager	9398	63	120	7,500	
		3. Sr. Project Manager (SFRA	-	6	134	800	
		4. Architecture Associate	5266	5	103	500	
							10,000
18	Visual and Aesthetic Impact Studies	1. Sr. Project Manager	5212	7	138	1,000	
		2. Capital Planning Manager	9398	8	120	1,000	
		3. Landscape Architecture	5274	67	119	8,000	
							10,000
19	Social and Economic Impact Analysis	1. Capital Planning Manager	9398	7	120	800	
		2. Sr. Project Manager (SFRA)	-	1	134	200	
		3. Project Manager (SFRA)	-	2	130	200	
		4. Planner				800	
							2,000
20	Land Use, Zoning, Housing and Growth Inducement Analysis	1. Capital Planning Manager	9398	5	120	600	
		2. Sr. Planner				100	
		3. Planner				100	
		4. Sr. Project Manager (SFRA	-	1	134	100	
		5. Project Manager (SFRA)	-	1	130	100	
							1,000
21	Regulatory Agencies, Permit Analysis and Preparation	1. Sr. Project Manager	5212	22	138	3,000	
		2. Capital Planning Manager	9398	208	120	25,000	
		3. Sr. Project Manager (SFRA)	-	15	134	2,000	
							30,000
22	Water, Sewer, Gas, Electric, Phone, Cable, and Utilities Analysis						
	a. AWSS	1. Assoc. Engineer	5207	58	103	6,000	
							6,000
	b. Other utilities	1. Assoc. Engineer	5207	58	103	6,000	
		2. Assist. Engineer	5203	184	87	16,000	
		3. Civil Engrg. Assoc. I	5364	225	80	18,000	
							40,000
23	Regulatory Agency Meetings	1. Sr. Project Manager	5212	36	138	5,000	
		2. Capital Planning Manager	9398	42	120	5,000	
		3. Sr. Project Manger (SFRA)	-	19	134	2,500	
		4. Project Manager (SFRA)	-	19	130	2,500	
		5. Assist. Project Manager	5207	49	103	5,000	
		6. Planner				5,000	
							25,000

Bayview Transportation Improvements Project
Cost Estimate for Budget Analyst

NO.	TASK	TITLE	CLASS	HOUR	RATE ($/HOUR)	SUBTOTAL ($)	TASK TOTAL ($)
24	Report Preparation	1. Sr. Project Manager	5212	43	138	6,000	
		2. Capital Planning Manager	9398	83	120	10,000	
		3. Sr. Project Manger (SFRA)	-	15	134	2,000	
		4. Project Manager (SFRA)	-	8	130	1,000	
		5. Assist. Project Manager	5207	5	103	500	
		6. Project engineer	5207	19	103	2,000	
		7. Engineer (Hydraulic)	5241	4	119	500	
		8. Traffic Planner		102	98	10,000	
		9. Env. Scientist	9398	8	120	1,000	
		10. Sr. Traffic Engineer		20	98	2,000	
		11. Sr. Civil Engineer (SFRA)	-	38	130	5,000	
							40,000
25	Public Hearings	1. Sr. Project Manager	5212	6	138	800	
		2. Capital Planning Manager	9398	7	120	800	
		3. Sr. Project Manger (SFRA)	-	1	134	200	
		4. Project Manager (SFRA)	-	2	130	200	
		5. Assist. Project Manager	5207	6	103	600	
		6. Planner				400	
							3,000
26	Quality Control	1. Sr. Project Manager	5212	29	138	4,000	
		2. Assist. Project Manager	5207	39	103	4,000	
		3. Project Engineer	5207	78	103	8,000	
		4. Civil Section Manager	5211	31	130	4,000	
							20,000
27	Environmental Compliance Monitoring	1. Capital Planning Manager	9398	8	120	1000	
							1,000
28	Independent Cost Estimating Check					0	
29	Right-of-Way Studies and Estimates	1. Sr. Project Manager	5212	4	138	500	
		2. Capital Planning Manager	9398	4	120	500	
		3. Project Engineer	5207	10	103	1,000	
		4. Real Estate				3,000	
		5. Others				7,000	
							12,000
30	Other						
	a. SFRA review consultant work	1. Sr. Project Manager (SFRA	-	75	134	10,000	
		2. Project Manager (SFRA)	-	308	130	40,000	
		3. Sr. Civil Engineer (SFRA)	-	362	130	47,000	
							97,000
	b. City planning review fees including Master Plan Consistency	1. Sr. Planner				50,000	
		2. Planner				200,000	
							250,000
	c. Real Estate	1. Real Estate				50,000	
							50,000
	d. Survey	1. Survey Manager	5216	18	110	2,000	
		2. Survey Associate	5314	114	88	10,000	
		3. Survey Assistant	5312	578	83	48,000	
							60,000
	e. City Attorney	1. Deputy City Attorney	-	429	140	60,000	
							60,000
	f. DPW Project Management	1. Mgr. Project Mgmt. Dept.	5212	145	138	20,000	
		2. Sr. Project Manager	5212	2,899	138	400,000	
		3. Capital Planning Manager	9398	2,586	116	300,000	
		4. Assist. Project Manager	5207	1,942	103	200,000	
		5. Senior Clerk Typist	1426	85	59	5,000	
		6. Others	5207			78,480	
							1,003,480
30	Subtotal						2,200,000
	Contingency (30%)						660,000
	TOTAL						2,860,000

Bayview Transportation Improvements Project
Estimated Timetable for Environmental Studies
Total Cost Includes Federal Funding at 80% and Local Match at 20%

2003	May	$30,225
	June	77,025
	July	115,000
	August	383,450
	September	566,555
	October	886,615
	November	1,159,680
	December	1,330,695
2004	January	1,520,170
	February	1,669,280
	March	1,752,805
	April	1,845,105
	May	1,911,405
	June	1,978,350
	July	2,883,735
	August	3,566,170
	September	4,053,410
	October	4,203,170
	November	4,310,420
	December	4,382,245
2005	January	4,534,345
	February	4,689,045
	March	4,817,745
	April	4,886,645
	May	4,902,245
	June	4,917,845
	July	4,931,500
	August	4,938,000
	September	4,944,500
	October-December	5,059,600

HOURS AND HOURLY RATES FOR BAYVIEW TRANSPORTATION CONSULTANTS

Jones and Stokes - Joint Venture Partner

Principal		Principal		Associate Principal		Sen. Env. Scientist		Environ. Scientist		Environ. Specialist IV		Environ. Specialist III	
Hrs	Rate	Hrs	Rate	Hrs	Rate	Hrs	Rate	Hrs	Rate	Hrs	Rate	Hrs	Rate
460	$ 62.99	170	$ 60.99	84	$ 45.79	577	$ 40.05	54	$ 35.39	498	$ 31.52	1,697	$ 25 10

Environ. Specialist II		Environ. Specialist I		Raw Labor Subtotal	Audited OH Rate	Burdened Labor	Profit	Labor Subtotal	Subtotal-Expenses and Travel	TOTAL
Hrs	Rate	Hrs	Rate							
1,025	$ 20.62	89	$ 16.89	$149,123	185.87%	$426,299	10%	$468,929	$47,620	$516,549

Carter and Burgess - Joint Venture Partner

Principal		Project Manager		Project Engineer		Engineer / Designer		Finance		Administrative		Raw Labor Subtotal	Audited OH Rate
Hrs	Rate	Hrs	Rate	Hrs	Rate	Hrs	Rate	Hrs	Rate	Hrs	Rate		
0	$0.00	1,248	$73.00	1,872	$44.00	0	$37.00	576	$30.00	936	$28.00	$216,960	165%

Burdened Labor	Profit	Labor Subtotal	Subtotal-Expenses and Travel	TOTAL
$574,944	10%	$632,438	$45,000	$677,438

A Williams Consultancy - subconsultant to Joint Venture Partner

Principal		Class 2		Class 3		Raw Labor Subtotal	Audited OH Rate	Burdened Labor	Profit	Labor Subtotal (includes overhead and profit)	Subtotal-Expenses and Travel	TOTAL
Hrs	Rate	Hrs	Rate	Hrs	Rate				10%			
90	$200.00					$18,000	146.35%	$18,000		$18,000	$200	$18,200

Geotechnical Consultants, Inc.- subconsultant to Joint Venture Partner

Class 1		Class 2		Class 3		Raw Labor Subtotal	Audited OH Rate	Burdened Labor	Profit	Labor Subtotal	Subtotal-Expenses and Travel	TOTAL
Hrs	Rate	Hrs	Rate	Hrs	Rate							
124	$72.12	431	$38.75	120	$30.40	$29,292	200%	$87,876	10%	$96,664	$40,000	$136,664

HNTB Corporation-subconsultant to Joint Venture Partner

Class 1		Class 2		Class 3		Raw Labor Subtotal	Audited OH Rate	Burdened Labor	Profit	Labor Subtotal	Subtotal-Expenses and Travel	TOTAL
Hrs	Rate	Hrs	Rate	Hrs	Rate							
194	$50.00	908	$35.00	440	$30.00	$54,680	153.53%	$138,630	10%	$152,493	$0	$152,493

LCW Consulting- subconsultant to Joint Venture Partner

Class 1		Class 2		Class 3		Raw Labor Subtotal	Audited OH Rate	Burdened Labor	Profit	Labor Subtotal	Subtotal-Expenses and Travel	TOTAL
Hrs	Rate	Hrs	Rate	Hrs	Rate				10%			
264	$130.00					$34,320		$34,320		$34,320	$2,460	$36,780

HOURS AND HOURLY RATES FOR BAYVIEW TRANSPORTATION CONSULTANTS

Michael Willis Architects- subconsultant to Joint Ventura Partner

Class 1		Class 2		Class 3		Raw Labor Subtotal	Audited OH Rate	Burdened Labor	Profit	Labor Subtotal	Subtotal-Expensos and Travel	TOTAL
Hrs	Rate	Hrs	Rate	Hrs	Rata				10%			
32	$140.00	0		54	$80.00	$8,800		$8,800		$8,800	$0	$8,800

Pitman & Associates- subconsultant to Joint Venture Partner

Principel		Project Planner		Class 3		Burdened Labor Subtotal	Audited OH Rate	Burdened Labor	Profit	Labor Subtotal	Subtotal-Exponses and Travel	TOTAL
Hrs	Rate	Hrs	Rate	Hrs	Rate				10%			
210	$105.00	256	$70.00			$39,970	150%	$39,970		$39,970	$600	$40,570

SR Beard- subconsultant to Joint Venture Partner

Class 1		Class 2		Class 3		Raw Labor Subtotal	Audited OH Rate	Burdened Labor	Profit	Lebor Subtotal	Subtotal-Expenses and Travel	TOTAL
Hrs	Rate	Hrs	Rate	Hrs	Rate							
310	$47.50					$14,725	128.04%	$33,579	10%	$36,937	$0	$36,937

Universal Field Services- subconsultant to Joint Venture Partner

Class 1		Class 2		Class 3		Raw Labor Subtotal	Audited OH Rate	Burdened Labor	Profit	Labor Subtotal	Subtotal-Expenses and Travel	TOTAL
Hrs	Rate	Hrs	Rate	Hrs	Rate							
64.00	$45.00	488.00	$55.00			$29,720	69.20%	$50,286	10%	$55,315	$4,300	$59,615

WRECO- subconsultant to Joint Venture Partner

Class 1		Class 2		Class 3		Raw Labor Subtotal	Audited OH Rate	Burdened Labor	Profit	Labor Subtotal	Subtotal-Expenses and Travel	TOTAL
Hrs	Rate	Hrs	Rate	Hrs	Rate							
158	$ 48.00	187	$ 26.00	76	$ 28.30	$14,597	122%	$32,405	10%	$35,645	$850	$36,495

Baseline- subconsultant to Joint Venture Partner

Class 1		Class 2		Class 3		Raw Labor Subtotal	Audited OH Rate	Burdened Labor	Profit	Labor Subtotal	Subtotal-Expenses and Travel	TOTAL
Hrs	Rate	Hrs	Rate	Hrs	Rate							
102	$52.00	432	$49.00	412	$40.00	$43,048	146.35%	$106,049	10%	$116,654	$133,165	$249,819

Jones and Stokes	$516,549
Carter and Burgess	677,438
A Williams Consultancy	18,200
Geotechnical Consultants	136,664
HNTB Corporation	152,493
LCW Consulting	36,780
Michael Willis Architects	8,800
Pittman and Associates	40,570
SR Beard	36,937
Universal Field Services	59,615
WRECO	36,495
Baseline	249,819
TOTAL	$1,970,360
Contingency (11.6%)	$229,240
TOTAL w/ contingency	$2,199,600

BAYVIEW TRANSPORTATION IMPROVEMENTS PROJECT
PROJECT MAILING LIST

	Received letter annoucing RFQ	
Adrienne Wong & Assocates	Stoner Meek	Geotechnical Consultants Inc
Barcelon & Jang	Terrell Watt Planning Consultants	
Freedman Tung & Bottomley	MH Construction Management Co	
Merrill + Befu Associates	Yerba Buena Engineering & Contruction Inc	
Office of Cheryl Barton	Gabewell Inc	
3D Visions	Seifel Consulting Inc	
BMS Design Group	Tanaka Design Group	
Dyett & Bhatia	Ward & Assocaites	
Mathau / Roche Design Group	Subsurface Environmental Crop.	
Natalie Macris	Robert Y Chew Geotechniacl Inc	
Antonia Baca Landscape Architect	ERRG Inc	
Bay Architects Assoc Inc	Taber Coppola	
Greg Roja & Associates Inc	Turnstone Consulting	
Mudie & Associates	S C A Environmental Inc	
Porat Consulting	Coverall engineering & Construction Inc	

City and County of San Francisco

Willie Lewis Brown, Jr., Mayor
Edwin M. Lee, Director

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Department of Public Works
Finance and Budget Division
30 Van Ness Avenue, 5th Floor
San Francisco, CA 94102

Tina Olson, Division Manager

To: Harvey Rose
Budget Analyst

From: Anna LaForte
Transportation Finance Analyst

Date: November 13, 2003

Re: Selection process for consultants for environmental studies and preliminary engineering for the Bayview Transportation Improvements Project

Attached are the summary score sheets for the Statement of Qualifications and Oral Interviews for the five responses to the RFQ for environmental studies and preliminary engineering for the Bayview Transportation Improvements Project.

The following text on the selection process is taken directly from the advertised RFQ.

10. SELECTION PROCESS

A. Pre-SOQ Conference

A pre-SOQ conference will be held at 1:30 P.M. on July 21, 2003, in the 5th Floor Main Conference Room at 30 Van Ness Street, San Francisco. A portion of the meeting will be devoted to informing all consultants of the San Francisco HRC and DBE requirements. There will be an opportunity for questions and answers. Questions regarding the RFQ are encouraged and will be accepted from July 9, 2003 through July 25, 2003. Questions should be directed, in writing, via fax, to Peg Divine at fax number 558-4519. Answers will be distributed to those who attend the pre-SOQ Conference.

B. SOQ Evaluation

A selection committee, composed of experienced professionals, will evaluate the written SOQ according to the criteria outlined. A short-list will be created following the evaluation of the written SOQ. All consultants submitting SOQs will be notified of the results by mail. Short-listed firms will be invited to the oral interviews, with notification of the time and place for the interviews. The number of firms selected for the interview depends on the number of SOQs received and is at the total discretion of the selection committee.

C. Selection For Interview

Selection of the short list for oral interviews is considered an eliminatory phase. All selected firms are considered equal for the interview and the proposal scores are not carried over into the interview phase.

D. Interview Evaluation

Through the interview, the selection committee will evaluate and rank those selected firms according to the predetermined outlined criteria.

E. Contract Negotiation

The City will negotiate with the highest ranked firm for contract. If the City is unable to negotiate a satisfactory agreement with this firm, the City will negotiate with other qualified firms according to their ranking until it has reached a satisfactory contractual agreement.

F. Pre-award Audit

Prior to award of a contract, a Caltrans pre-award audit will be performed. The pre-award audit will be conducted in accordance with generally accepted government auditing standards as promulgated by the United States General Accounting Office. See Caltrans Local Programs Procedures "LPP 00-05, Revised Pre-award Audit Requirements and Consultant Procurement", at "http://www.dot.ca.gov/hq/LocalPrograms".

The five firms that submitted written Statements of Qualifications (SOQ) were scored according to the criteria outlined in the RFQ. As noted above, the SOQ evaluation was considered an eliminatory phase. Bayview Transportation Consultants (BTC) scored second highest in the SOQ scoring process.

All five firms were invited to participate in the oral interviews. As noted above, all firms selected to participate in the oral interview process were considered equal for the interview and the proposal scores were not carried into the interview phase. Of the five firms that participated in the oral interviews, BTC scored the highest. Thus, BTC was selected to perform the environmental studies and preliminary engineering for the Bayview Transportation Improvements Project.

DPW followed federal and state laws, and local guidelines when we did not consider price as a selection factor for the environmental consultants for the Bayview Transportation Improvements Project. The Federal Highway Administration policy and guidance on the use of consultants are in Title 23 Code of Federal Regulations Part 172, Administration of Engineering and Design Related Service Contracts. 23 CFR 172.5 Methods of Procurement states:

> (a) *Procurement.* The procurement of Federal-aid highway contracts for engineering and design related services shall be evaluated and ranked by the contracting agency using one of the following procedures:
>
> > (1) *Competitive negotiation.* Contracting agencies shall use competitive negotiation for the procurement of engineering and design related services when Federal-aid highway funds are involved in the contract. These contracts shall use qualifications-based selection procedures in the same manner as a contract for architectural and engineering services is negotiated under title IX of the Federal Property and Administrative Services Act of 1949 (40 USC 541-544) or equivalent State qualifications-based requirements. The proposal solicitation (project, task, or service) process shall be by public announcement, advertisement, or any other method that assures qualified in-State and out-of-State consultants are given a fair opportunity to be considered for award of the contract. Price shall not be used as a factor in the analysis and selection phase.

> Alternately, a formal procedure adopted by State Statute enacted into law prior to June 9, 1998 is also permitted under paragraph (a)(4) of this section....

Federal law for administering engineering and design related service contracts, which include environmental studies, do not allow price to be used as a factor in the consultant selection process.

Further, according to Chapter 10 of the California Department of Transportation Local Assistance Procedures Manual, "For this manual, those private consulting firms providing architectural, landscape architectural, engineering, environmental, land surveying, or construction project management services are termed Architectural and Engineering consultants. California law requires selection of A&E consultants on the basis of demonstrated competence and professional qualifications. Cost may not be used as a basis for selecting such consultants. Contracts must be negotiated in order of the most qualified consultant at prices to be determined to be fair and reasonable to the local agency (Government Code, Chapter 10, Sections 4525 through 4529.5)." State law for administering architectural and engineering consultants, which includes environmental consultants, do not allow price to be used as a factor in the consultant selection process.

Further, San Francisco Administration Code Section 21.4 specifies that the Contracting Officer, who is the City employee authorized to execute a contract, may issue a request for Proposals or request for qualifications for the selection of Professional Service Contractors following consideration of the evaluation factors set forth in the request for Proposals, which may include cost, except as prohibited by law. This is consistent with procurement of professional services under Administrative Code Section 6.41 which states criteria for selection shall be based primarily on qualifications and experience. The Contracting Officer is authorized to negotiate terms and conditions, including price, with the highest ranked Proposer.

Further, Section IV, C.5, of the Minority/Woman/Local Business Utilization Ordinance (Chapter 12D of the Human Rights Commission Rules and Regulations), "Prior experience has indicated that on occasions, use of fees or cost estimates as scoring criteria has resulted in discrimination. Accordingly, departments are urged not to use fees or cost estimates of services as scoring criteria in consulting and professional services contracts." The Human Rights Commission urges City departments to not consider price when selecting a firm in the selection process. Prices are submitted to departments in a sealed envelope, and are opened after the consultants are evaluated and scored.

The selection process was designed to select a firm with the necessary skills, experience, and personnel to study this complex, controversial project and address Caltrans and FHWA's preference on environmental study methodology and documentation style for the EIR/EIS. The EIR/EIS process is lengthy, but can be shortened and less costly by use of a firm which has knowledge and experience with Caltrans and FHWA procedures.

To assure competitive contract prices, the City requested cost estimates by task in sealed envelopes at the time of the oral interviews. In accordance with State and Federal requirements, the envelopes were only opened after the selection panel ranked the firms on qualifications and experience. The price that DPW negotiated with BTC is below the average and the median of the 5 firms' estimates. Further, Caltrans is in the process of auditing rates for labor, mileage, and various overhead items to assure they are below the maximum rates allowed by the Federal Acquisition Regulations.

BAYVIEW TRAFFIC CIRCULATION IMPROVEMENTS PROJECT
SOQ SCORE SUMMARY

CATEGORY	FIRM	REVIEW PANEL MEMBERS AND SCORES					
		Panelist 1	Panelist 2	Panelist 3	Panelist 4	Panelist 5	TOTAL
1. FIRM EXPERIENCE	SoBAT	8	6	8	7	9	38
	ESA	6	5	10	8	9	38
	BTC	7	6	5	8	9	35
	Parsons	7	6	7	7	9	36
	URS	6	6	8	8	9	37
2. KEY STAFF EXPERIENCE	SoBAT	35	29	38	32	25	159
	ESA	20	22	32	33	22	129
	BTC	30	35	32	32	21	150
	Parsons	30	33	31	25	21	140
	URS	30	30	35	31	23	149
3. AVAILABILITY	SoBAT	9	8	9	8	9	43
	ESA	8	7	8	8	9	40
	BTC	10	8	8	7	9	42
	Parsons	10	6	7	7	8	38
	URS	10	7	5	7	9	38
4. APPROACH	SoBAT	35	18	34	30	28	145
	ESA	15	15	33	31	32	126
	BTC	30	28	30	29	32	149
	Parsons	30	20	27	25	25	127
	URS	20	27	20	26	32	125
5. OTHER FACTORS	SoBAT	5	4	4	3	4	20
	ESA	3	3	5	4	4	19
	BTC	4	4	1	4	5	18
	Parsons	4	5	5	3	4	21
	URS	3	4	3	3	4	17
TOTAL POINTS	SoBAT	92	65	93	80	75	405
	ESA	52	52	88	84	76	352
	BTC	81	81	76	80	76	394
	Parsons	81	70	77	67	67	362
	URS	69	74	71	75	77	366

BAYVIEW TRAFFIC CIRCULATION IMPROVEMENTS PROJECT
ORAL INTERVIEW SCORE SUMMARY

CATEGORY	FIRM	REVIEW PANEL MEMBERS AND SCORES					
		Panelist 1	Panelist 2	Panelist 3	Panelist 4	Panelist 5	TOTAL
1. FIRM EXPERIENCE	SoBAT	8	9	8	5	7	37
	ESA	6	8	8	5	7	34
	BTC	8	9	8	9	9	43
	Parsons	8	10	8	10	10	46
	URS	7	7	9	6	7	36
2. KEY STAFF EXPERIENCE	SoBAT	30	26	38	25	31	150
	ESA	20	31	30	30	35	146
	BTC	35	40	37	35	38	185
	Parsons	35	38	35	40	38	186
	URS	30	32	32	26	33	153
3. AVAILABILITY	SoBAT	9	9	9	7	9	43
	ESA	8	9	10	7	9	43
	BTC	10	8	5	9	9	41
	Parsons	10	10	8	7	9	44
	URS	10	10	8	6	7	41
4. APPROACH	SoBAT	25	21	32	26	25	129
	ESA	15	23	35	25	32	130
	BTC	35	35	30	35	35	170
	Parsons	27	33	32	35	35	162
	URS	25	21	30	28	27	131
5. OTHER FACTORS	SoBAT	3	5	4	3	4	19
	ESA	3	3	5	3	4	18
	BTC	5	5	4	5	5	24
	Parsons	3	4	4	5	5	21
	URS	3	4	4	4	3	18
TOTAL POINTS	SoBAT	75	70	91	66	76	378
	ESA	52	74	88	70	87	371
	BTC	93	97	84	93	96	463
	Parsons	83	95	87	97	97	459
	URS	75	74	83	70	77	379

Item 7 - File 03-1696

Note: This item was continued by the Finance Committee at its meeting of November 5, 2003.

Department: Public Utilities Commission (PUC)
Water Department (WTR)

Item: Resolution authorizing a new 25-year lease of City-owned land in Alameda County under the jurisdiction of the Public Utilities Commission, between the City and County of San Francisco through its Public Utilities Commission and the Sunol Valley Golf and Recreation Company for purposes of continuing to operate the Sunol Valley Golf Course which includes two golf courses and privately-owned related facilities.

Lessor: City and County of San Francisco acting by and through the Public Utilities Commission (PUC)

Lessee: Sunol Valley Golf and Recreation Company (Sunol Valley) (owners include Ronald F. Ivaldi, Marjorie L. Russell, Lisa M. Granzella, Bryan E. Richardson, and the Ivaldi Family Trusts)

Location and Acreage: Portion of Parcels 61 and 65 in Alameda County at 6900 Mission Road in Sunol, California, consisting of approximately 280 acres of land and related facilities, including two eighteen hole golf courses, a two story building housing, a pro shop and administrative offices, and a clubhouse. All of the facilities are owned by Sunol Valley, the lessee.

Term of Proposed Lease: The proposed new lease would be effective on approval of the Board of Supervisors and the Mayor and expire October 31, 2028 or a period of 25 years. Since August 31, 2001 the proposed lessee has been operating the Sunol Valley Golf Course under a month-to-month holdover basis as provided for in the original lease which was previously awarded to Sunol Valley by the PUC.

Provisions Included in Original Lease: The original lease in 1965 to operate the Sunol Valley Golf Course was awarded by the PUC to the Sunol Valley Golf Course and Recreation Company under a competitive bid process. That lease began September 1, 1965 and terminated on August 31, 2001. Since the termination of

that agreement on August 31, 2001, the PUC has authorized the same lessee, Sunol Valley, to operate the Sunol Valley Golf Course under a month-to-month holdover provision contained in the original lease. Under the original lease and under the month-to-month holdover provision, the rent payable by Sunol Valley to the PUC continues to be the greater of either the Minimum Rent or the Percentage Rent as follows:

Minimum Annual Rent
$12,000 (at $1,000 per month)

Percentage Rent:
For each month, percentage rent shall equal the sum of a) 10 percent of Admissions gross revenues, plus, b) 5 percent of Equipment Rentals gross revenues, plus, c) 8.25 percent of Concessions gross revenues, calculated and payable on a monthly basis.

Rent Paid by Sunol Valley to the PUC Under Original Lease:

According to Mr. Gary Dowd of the PUC, Sunol Valley has paid Percentage Rent, because the percentage rent has been greater than the Minimum Rent, since at least 1993 (historical data prior to 1993 is not available). As shown in Attachment V, which includes a 10-year history of actual rent payments made by Sunol Valley to the PUC, Sunol Valley, has paid the PUC an average of $41,705 per month as percentage rent.

Rent to be paid by Sunol Valley to the PUC Under the Proposed New Lease:

Under the proposed new lease, Sunol Valley is required to pay the PUC the greater of either the Minimum Rent or Percentage Rent in accordance with the following:

Minimum Annual Rent
For the first five Lease Years:
$250,000 ($20,833 per month)

For the sixth through tenth Lease Year:
$500,000 ($41,667 per month)

For the eleventh and each Lease Year thereafter:
The Minimum Rent of $500,000 noted above is to be adjusted annually by the percentage change in the Consumer Price Index (CPI) for the San Francisco, Oakland, San Jose metropolitan area for Lease Years 11 through 25 ($41,667 per month adjusted by the CPI).

Percentage Rent
For the first five lease years, percentage rent shall equal the sum of a) 5 percent of Admissions gross revenues, plus, b) 2.5 percent of Equipment Rentals gross revenues, plus, c) 4.125 percent of Concessions gross revenues, calculated and payable on a monthly basis. For the sixth through twenty-fifth lease years, percentage rent shall equal the sum of a) 10 percent of Admissions gross revenues, plus, b) 5 percent of Equipment Rentals gross revenues, plus, c) 8.25 percent of Concessions gross revenues, calculated and payable on a monthly basis. Therefore, the percentage rent under the proposed lease would be reduced by 50 percent from the percentage rent required under the existing lease for Lease Years 1 through 5, and then for years 6 through 25 of the proposed lease, the Percentage Rent would return to the same rates as are being paid under the existing lease.

Therefore, the percentage rates contained in the proposed lease are less for the first five years and are the same percentage rates for the last 20 years as are contained in the existing lease which was awarded approximately 38 years ago in 1965. According to Mr. Dowd, the proposed lease does not provide for any rate increases in the percentage of gross revenues from the existing lease because considering the $2,096,998 in required capital improvements and an additional $10,836,202 (see below) in capital improvements needed, there wasn't room for a rent increase. However, the Budget Analyst noted that the proposed lease did not contain specific provisions to require the lessee, Sunol Valley, to expend an additional $10,836,202 for capital improvements. Subsequent to the submission of Budget Analyst's draft report to the PUC, Mr. Dowd has since added language to the proposed lease to designate not less than $10.8 million in capital improvements to be expended by Sunol Valley over the 25 year lease, in addition to the $2,096,998 noted above. However, such language has not been approved by the

PUC and the proposed resolution does not yet reflect the language added by Mr. Dowd. According to Mr. Dowd, the percentage rent is being reduced for the first five years to offset a majority of the $2,096,998 in required capital improvements at the Sunol Valley Golf Course to be made by Sunol Valley. In fact, the Budget Analyst has calculated that this proposed reduction in percentage rent would result in the PUC paying for 67.2 percent of such capital improvements (see Comment No. 5).

Utilities and Janitorial Service: Provided by the Lessee.

Additional Lessee Financial Obligations: The proposed lease requires the lessee to pay for the following Capital Improvements to the Sunol Valley Golf Course to be completed within two years after the lease Commencement Date of November 1, 2003, in an amount of not less than $2,096,098 as follows:

Required Work	Estimated Costs
Irrigation Supply New Pipe Line	$138,600
Pond 3 Improvements	735,561
Pond 4, 5 Improvements	511,100
Maintenance Building Relocation	574,550
Contingency	137,187
Total Estimated Costs:	$2,096,998

According to Mr. Dowd, the scope of the capital improvements and the total estimated capital improvement costs of $2,096,998 for such improvements were determined by a consultant, Tanner Consulting, a firm retained by Sunol Valley at the lessee's expense. An itemized budget and description of the required work is shown in Attachment I, provided by the PUC. The Budget Analyst questioned why the PUC did not determine the capital improvement needs and their related costs using a consultant selected by the PUC instead of permitting the lessee, Sunol Valley to have their own consultant make such determinations. In response, Mr. Dowd stated:

> "The lessee worked very closely with PUC staff and the City Attorney's Office to direct Tanner Consulting as to the appropriate Project Scope of Work. Under the proposed lease agreement the

> lessee is responsible for completing all required work, regardless of cost. Any portion of the $2,096,998 not spent on required work must be deposited into the Capital Improvement Fund so the City will in fact receive the full $2,096,998 benefit regardless of actual costs."

According to the proposed lease, these capital improvements must be completed by November 1, 2005. Additionally, Sunol Valley must establish and maintain a separate, interest-bearing Capital Improvement Fund Account. Sunol Valley must deposit by the twentieth day of each month an amount equal to two percent of the Gross Revenues from the preceding month in Lease Years 1 through 25. Mr. Dowd advises that this 2 percent contribution is taken from total gross revenues and the Fund proceeds are required to be expended for Capital Improvement projects, in addition to the $2,096,998 described above, over the course of the Lease term with the PUC General Manager's approval. As shown in Attachment II provided by Mr. Dowd, these additional capital improvements are estimated to cost $10,836,202.

Interest earned on the Fund balance shall become part of the Capital Improvement Fund and shall be used exclusively for construction, repair, and replacement of capital items.

All maintenance of the golf course and facilities will be the responsibility of lessee. The proposed lease contains detailed maintenance standards that must be met by the lessee.

During the term of the proposed lease, the lessee must maintain a security deposit equal to $250,000, an increase of $200,000 from the current security deposit of $50,000 under the existing month to month lease.

Description: On March 8, 1965, the PUC advertised for bids to construct and operate the Sunol Valley Golf Course on 280 acres of PUC-owned land located south of Sunol Water Temple in Sunol, California, in Alameda County. On June 20, 1965 the PUC awarded a 22-year Lease beginning September 1, 1965 between the PUC and Sunol

Valley Golf and Recreation Company, the same lessee as is being proposed for the new subject lease. On March 19, 1968, the PUC approved the First Amendment to the Lease which extended the completion date for operating the Sunol Valley Golf Course for an additional 18 months. According to Mr. Dowd, two golf courses were constructed and paid for by Sunol Valley Golf and Recreation Company. On April 1, 1969, the PUC approved the Second Amendment to the Lease which provided for a 14-year extension to the 22-year lease with Sunol Valley, creating a 36-year lease commencing September 1, 1965 and ending August 31, 2001 with an option for an additional 6 years, terminating August 31, 2007. On May 23, 1989 the PUC approved the Third Amendment to the Lease giving Sunol Valley the option to provide the City with a cash security deposit or a letter of credit in lieu of a performance bond and also provided for payment to the City of 5 percent of gross revenues for rental of all golf carts as additional percentage rent.

Since August 31, 2001, Sunol Valley Golf Course has been operated by Sunol Valley on a month-to-month basis with the PUC. As noted above, upon termination of the lease in 2001, Sunol Valley had the option to extend for an additional six years. Regarding the option for an additional six years, Section 3 of the Second Amendment to the original lease states the following:

> "The parties hereto mutually covenant and agree to then negotiate as to the terms, conditions and rental for said extension, and if such negotiation results in mutual understanding and agreement, Commission, by resolution, shall grant such extension of term, subject to the covenants and conditions arrived at through such negotiations, which covenants and conditions shall be reasonable and fair."

In Attachment III, a memo provided by the PUC, Mr. Dowd explains why the six-year option was not approved by the PUC. Mr. Dowd states the PUC:

> "did not approve the six-year extension option because at the time the tenant sent notice to

> exercise the option there were too many unknowns regarding continued water supply, costs associated with corrective action for the petroleum pipeline, and essential capital improvements needed at the course."

Attachment III further explains why this proposed lease has been recommended by the PUC on a sole source basis without the use of competitive bidding processes and why the lessee has been permitted to operate on a month-to-month holdover basis since August 31, 2001 after the remaining six-year option under the existing lease was not approved by the PUC. Among other reasons, Mr. Dowd states that "the bid process could have taken anywhere from one and a half to two years to complete and award, as was the PUC's experience with Crystal Springs Golf Course in 1997." Further, Mr. Dowd stated that the PUC had concerns over potential environmental damage and the PUC's potential liability related to the unknowns regarding continued water supply and costs associated with corrective action for the petroleum pipeline. Attachment III details the potential environmental issues that currently face Sunol Valley, including water supply problems and an eroding petroleum pipeline, which according to the PUC, are critical, and could not wait any longer to be addressed. The memo from Mr. Dowd also explains why this proposed subject new 25-year lease has been recommended for award by the PUC to Sunol Valley on a sole source basis without the use of competitive bidding procedures. The memo concludes by stating:

> "The critical work at the course could not and cannot wait any longer. The SFPUC has been very pleased with Sunol Golf Course's willingness to perform the "Required Work" and they have been very cooperative and acted in good faith throughout the negotiation process. The SFPUC is also in full support of the recommendations outlined in the Dornbusch Analysis. Upon approval of the new Lease all of the above referenced critical projects will immediately commence."

The PUC has proposed a new 25-year lease without competitive bidding with the following rent structure and conditions:

- The Minimum Rent would be increased, from the current level of $1,000 monthly or $12,000 annually to $20,833 monthly or $250,000 annually in Lease Years 1-5; increased to $41,667 monthly or $500,000 annually in Lease Years 6-10; and adjusted annually by the amount of the percentage change in the CPI for Lease Years 11-20. According to Mr. Dowd, the Minimum Rent was set at a low level in the original lease because rents paid were always assumed to be based on the percentage of gross revenues. Mr. Dowd adds that at the time of the original lease, the golf industry in the Sunol Valley area was not strong, and the number of rounds being played at the course were far less than they are today. Mr. Dowd advises that as residential communities continued to develop around the Sunol Valley area, demand for golf also grew and the Percentage Rent became the most important factor for calculating rent. However, since 1965, or over 38 years ago, when the original lease with Sunol Valley was first awarded by the PUC, the rental rates, as determined by the percentage of gross revenues, have never been increased and the PUC has only realized increased rent as a result of increases in Sunol Valley's gross revenues. In fact, as previously noted, the proposed lease provides for a 50 percent reduction in the percentage of gross receipt rates for the first five years of the new 25-year lease. Mr. Dowd explains that "considering the $2,096,998 in required work and the additional $10,836,202 in capital improvements needed, there wasn't room for a rent increase". However, Mr. Dowd's statement does not directly address why there has never been an increase in the rates, as determined by a percentage of gross revenues, for over 38 years. Although the annual Minimum Rent is being increased under this proposed lease, Mr. Dowd acknowledges that the rent has always been paid under the percentage of gross method and not under the Minimum Rent method.

- Percentage rent would be reduced by 50 percent from the payments required under the existing lease in Years 1 to 5, from 10 percent in Admissions gross revenues plus 5 percent of Equipment Rentals gross revenues plus 8.25 percent of Concessions gross revenues to 5 percent in admissions gross revenues plus 2.5 percent of Equipment Rentals gross revenues plus 4.125 percent of Concessions gross revenues. In Lease Years 6 through 25, Percentage Rent would return to the same levels now being paid under the existing lease of 10 percent in Admissions gross revenues plus 5 percent of Equipment Rentals gross revenues plus 8.25 percent of Concessions gross revenues. Attachment IX, provided by Mr. Dowd, explains how the Minimum Rent and the Percentage Rent levels under the proposed lease were determined.

- The security deposit required to be maintained by Sunol Valley would be increased from $50,000 to $250,000.

- Sunol Valley would be responsible to pay for certain capital improvements required in the first two years of the Lease (as summarized above and in Attachment I) in an amount of not less than $2,096,998.

- Sunol Valley would be required to pay the PUC an amount equal to $2,500 for processing fees. According to Mr. Dowd, this is the standard amount the PUC charges all lessees for new leases to cover administrative expenses. Mr. Dowd explains that the $2,500 processing fee was determined by the PUC to provide for staff time expenses for administering leases, and that an individual determination of staff time regarding this proposed lease is not available.

- Sunol Valley would be required to pay 2 percent of annual gross revenues into a Capital Improvement Fund as noted above.

Comments:

1. According to Mr. Dowd, early in 2003, the PUC engaged the services of Dornbusch Associates, at a cost of $57,478, paid for by Sunol Valley, to perform an assessment of the economics of the original lease and the current operation of the golf course. Mr. Dowd notes that Dornbusch Associates was selected by the PUC as a consultant, based on their past experience with the Crystal Springs Golf Course Leases. Dornbusch Associates was instructed to consider the not less than $2,096,998 in capital improvements that the Lessee would be responsible for, as part of their analysis and recommendations. However, as previously noted, the scope and the estimated cost of these capital improvements, totaling $2,096,998, were determined by Tanner Consulting, a firm, not retained by the PUC, but rather retained by the lessee itself, Sunol Valley. A summary of the Dornbusch Associates findings and subsequent recommendations are described in Attachment IV, provided by the PUC.

2. Attachment V, prepared by the Budget Analyst from data provided by the PUC, is a 10-year history of Sunol Valley's gross revenues, percentage rent, and actual rent paid to the PUC. As shown in Attachment V, since 1993, percentage rents paid to the PUC by Sunol Valley always exceeded the minimum annual rent of $12,000 each year by at least $413,839 per year.

3. Attachment VI, provided by the PUC, shows that the projected internal rate of return for Sunol Valley at the existing rent structure on the month-to-month holdover basis, projected for 25 years, is 12.6 percent. According to Mr. Dowd, the appropriate internal rate of return for Sunol Valley is estimated between 17 and 21 percent, as shown on page 2 of Attachment IV. Attachment VII, also provided by the PUC, shows the projected internal rate of return for Sunol Valley at the proposed rent schedule at 16.6 percent. The Budget Analyst has not independently verified the source data used for the Dornbusch Associates calculations or that a projected rate of return for Sunol Valley of between 17 and 21 percent is appropriate. Mr. Dowd advises that the proposed percentage rent reduction for the first five years is necessitated by the $2,096,998 to be expended on required

capital improvements, in addition to substantial future capital improvements needed at both the golf course and the clubhouse. According to Mr. Dowd, the percentage rent is being reduced for the first five years to offset a majority of the $2,096,998 in required work to be performed by Sunol Valley.

"Internal rate of return" is a financial measure of the annual discount rate that makes the net present value of a series of investment cash flows equal to zero. In the context of the proposed Sunol Valley lease agreement, the higher the internal rate of return, the greater Sunol Valley's net income over the 25-year term of the new lease agreement. Therefore, the PUC's proposal to reduce Sunol Valley's percentage rent by 50 percent for the first five years of the new, 25-year lease increases Sunol Valley's Projected Cash Flow, over the 25-year term of the proposed lease by $1,410,054, or 10.4 percent, from $13,571,586 to $14,981,640, as shown below. This increase in projected cash flow for Sunol Valley increases their internal rate of return from 12.6 percent to 16.6 percent as shown below.

Lease Year	Sunol Valley - Projected Annual Cash Flow - at Existing Percentage Rent Levels	Sunol Valley - Projected Annual Cash Flow at Proposed Percentage Rent Levels (one half percentage rent for years one through five)	Difference In Sunol Valley's Projected Annual Cash Flow
1	$ (3,016,357)	$ (2,745,403)	$ 270,954
2	438,477	714,850	276,373
3	(1,117,279)	(835,379)	281,900
4	153,891	441,429	287,538
5	611,590	904,879	293,289
6	38,659	38,659	-
7	636,299	636,299	-
8	557,130	557,130	-
9	662,005	662,005	-
10	675,245	675,245	-
11	688,750	688,750	-
12	702,525	702,525	-
13	741,940	741,940	-
14	860,268	860,268	-
15	877,473	877,473	-
16	895,022	895,022	-
17	912,923	912,923	-
18	819,162	819,162	-
19	949,805	949,805	-
20	968,801	968,801	-
21	988,177	988,177	-
22	1,007,941	1,007,941	-
23	1,120,858	1,120,858	-
24	1,143,275	1,143,275	-
25	1,255,006	1,255,006	-
	$ 13,571,586	$ 14,981,640	$ 1,410,054
Average Annual Cash Flow	$ 542,863	$ 599,266	$ 56,403
Internal Rate of Return	12.6 %	16.6 %	

Therefore, by granting the 50 percent reduction in percentage rent payable by Sunol Valley for the first five years of the proposed lease agreement, the PUC will realize reduced projected revenues of $1,410,054, or $282,011 annually for five years.

Further, the Budget Analyst notes that the PUC's decision that a 16 percent internal rate of return is appropriate is based on a consultant's report, prepared by Dornbusch Associates, that ".. an appropriate nominal target rate-of-return might be projected to be as low as 16% to 20%." Dornbusch Associates report was based on:

- An analysis of Crystal Springs Golf Partners expected internal rate of return, after final negotiation of lease negotiations with the City, of 24 percent. Crystal Springs Golf Partners was awarded, through a competitive Request for Proposals process, the lease for operation of the PUC-owned Crystal Springs golf course in Burlingame, approved by the Board of Supervisors in December of 1996.

- A survey of investors in twelve leased golf club properties throughout California (and primarily in Northern California, according to Dornbusch and Associates report. Dornbusch and Associates stated that "They [the surveyed investors] reported their target returns on "unleveraged" invested capital to be in the range of 17% to 24%. Leveraged returns to equity were targeted in the range of 22% to 24%".

The Budget Analyst requested the source data for the Dornbusch and Associates survey. However, we were not provided with such source data because, according to Dornbusch and Associates response, such source data was obtained on a confidential basis and could therefore not be provided.

As noted above, the Budget Analyst did not independently verify that a projected rate of return for Sunol Valley between 17 and 21 percent is appropriate.

4. According to Mr. Dowd, the required capital improvements described above and in Attachment I are necessary for the operations of Sunol Valley. In Attachment VIII, Mr. Dowd explains why such improvements are required. Mr. Dowd advises that the installation of the capital improvements will have no impact on regular course operations and will not impact revenues beyond the reduced percentage rent during the first five years under the proposed lease.

5. The Budget Analyst notes that in the 10-year history of rents paid (shown in Attachment V), the percentage rent was considerably greater than the minimum annual rent of $12,000, which averaged $41,705 per year. Additionally, gross revenues only declined materially in three of the 10 years. The Budget Analyst notes that the proposed reduction in percentage rent for Lease Years 1 through 5 will offset $1,410,054, or 67.2 percent of the $2,096,998 in required work to be performed by Sunol Valley. In lease Years 6 through 25 the percentage rents will be returned to the same levels as are being paid under the existing lease.

6. The Budget Analyst notes that, without a competitive bidding process for the selection of a lessee for the Sunol Valley Golf Course, it is impossible to determine whether the proposed lease is in the best interest of the City. As one example, it is unknown if some other prospective bidder would have absorbed 100 percent of the costs of the required $2,096,998 in capital improvements, without requiring a rent reduction for the first five years of the new lease. While the PUC has justified their decision to not conduct a competitive bidding process partially on the basis of their representation that it would have taken one and a half to two years to conduct such a competitive process, the Budget Analyst notes that it has been over two years and one month since the original lease with Sunol Valley expired on August 31, 2001 and that original lease has been continued by the PUC on a month-to-month holdover basis. As previously noted, the Percentage Rent under the proposed lease would be reduced for the first five years of the lease by 50 percent from the payments required under the existing lease. Further in years 6 through 25, the Percentage Rent would only return to the same levels now being paid under the existing lease, which was originally awarded approximately 38 years ago, in 1965. Therefore, the proposed lease provides for no increases in the percentage rates except for normal CPI adjustments. Although the minimum rent is being increased from $12,000 to up to $500,000 beginning in lease year 6, Mr. Dowd has advised that it has always been assumed that the Percentage Rent and not the Minimum Rent would be paid to the

PUC. The Budget Analyst continues to question why the PUC permitted the lessee, Sunol Valley, to retain its own consultant to determine the scope and related costs of the required $2,096,098 in capital improvements instead of having the PUC retain a consultant for making such determinations.

Recommendations:

1. The Budget Analyst recommends an amendment to the proposed resolution to require the addition of a specific lease provision to require that the lessee, Sunol Valley, expend not less than $10.8 million in capital improvements during the 25-year term of the lease, in addition to the $2,096,098 noted above, by inserting the following on line 16 of the proposed resolution:

> FURTHER RESOLVED that the Board of Supervisors approval of this lease is conditioned on the inclusion of a specific lease provision that that Tenant shall be obligated to expend an aggregate amount of not less than Ten Million Eight Hundred Thousand Dollars ($10,800,000), in addition to the requirement to expend $2,096,098, in connection with completing additional capital improvements during the term of the lease.

2. In summary, this proposed new 25-year lease, would be awarded to the same lessee, Sunol Valley, who was awarded the original lease in 1965. Sunol Valley continues to lease the premises on a month-to-month basis after the PUC did not approve a six year extension under the existing lease. The new lease is being awarded on a sole source basis, without the use of competitive bidding procedures, based partially on the PUC's representation that a competitive bidding procedure could take one and a half to two years to conduct. Yet, the Budget Analyst notes that it has been over two years and one month since the original lease with Sunol Valley expired on August 31, 2001 and that the original lease has been continued by the PUC on a month-to-month holdover basis. Under this proposed new lease, the rental rates, as determined by a percentage of gross revenues, not only have not been increased since 1965, but such rates are being reduced by 50 percent for the first five years of the proposed new lease.

Based on all of these facts, the Budget Analyst cannot recommend approval of this proposed resolution. However, the Budget Analyst considers approval of the proposed resolution, as amended, to be a policy matter for the Board of Supervisors based on the representation of the PUC that approval of this new lease can no longer be delayed because of environmental concerns.

Harvey M. Rose

cc: Supervisor Peskin
Supervisor Sandoval
Supervisor McGoldrick
Clerk of the Board
Controller
Ben Rosenfield
Ted Lakey

SUNOL VALLEY GOLF COURSE
Required Work

Irrigation Supply New Pipe Line

Item #	Description	QTY	Price	Amount	
1	Pump Station Improvements (Controls and Electrical Upgrade)	1	$ 59,000.00	$ 59,000.00	
2	Install 12" HDPE Pipe From PS-1 to Pond #1	2100 LF	$ 66,000.00	$ 66,000.00	
3	Design Engineering and Permitting	1	$ 13,600.00	$ 13,600.00	
			SUB TOTAL		$ 138,600.00

Pond #3 Improvement Cost Estimate

Item #	Description	QTY	Price	Amount	
1	Demolition and Mobilization	1	$ 59,000.00	$ 59,000.00	
2	Grading	1	$ 105,061.00	$ 105,061.00	
3	Spillway From Pond #3 to Pond #4	1	$ 296,000.00	$ 296,000.00	
4	12" Piping Improvements to Pond #3	1	$ 51,000.00	$ 51,000.00	
5	24" Piping Installation From Pond #3 - Pond #4	1	$ 33,000.00	$ 33,000.00	
6	Bridge over Spillway	1	$ 46,000.00	$ 46,000.00	
7	Landscape and Finish	1	$ 61,000.00	$ 61,000.00	
8	Dewatering Pumps	1	$ 19,000.00	$ 19,000.00	
9	Design Engineering and Permitting	1	$ 65,500.00	$ 65,500.00	
			SUB TOTAL		$ 735,561.00

Pond #4 and #5 Improvement Cost Estimate

Item #	Description	QTY	Price	Amount	
1	Demolition and Mobilization	1	$ 56,000.00	$ 56,000.00	
2	Spillway From Pond #4	1	$ 155,000.00	$ 155,000.00	
3	12" Piping Supply Improvements	1	$ 44,000.00	$ 14,000.00	
4	Bridge over Spillway	1	$ 46,000.00	$ 39,700.00	
5	Irrigation Pump Station (Pump, Enclosure, Filters, Intake and Wet Well)	1	$ 200,000.00	$ 200,000.00	
6	Design Engineering and Permitting	1	$ 46,400.00	$ 46,400.00	
			SUB TOTAL		$ 511,100.00

Mitigation Improvements / Maintenance Building Relocation

Item #	Description	QTY	Price	Amount	
1	Grubbing, Clean-up and Mobilization	1	$ 15,000.00	$ 15,000.00	
2	Grading	11250	$ 3.00	$ 33,750.00	
3	Electrical, Water, Sewer, Phone	1	$ 53,000.00	$ 53,000.00	
4	Buildings (2)	7400	$ 28.00	$ 207,200.00	
5	Parking and Landscape	16600	$ 4.00	$ 66,400.00	
6	Demolition of Old Structures	1	$ 53,000.00	$ 53,000.00	
7	Re-vegetation and Clean-up	1	$ 40,000.00	$ 40,000.00	
8	Fuel Tank and Chemical Storage Containment	1	$ 54,000.00	$ 54,000.00	
9	Design Engineering and Permitting	1	$ 52,200.22	$ 52,200.22	
			SUB TOTAL		$ 574,550.22

TOTAL	$ 1,959,811.22
Contingency	$ 137,186.79
Total	$ 2,096,998.00

SUNOL VALLEY GOLF & RECREATION COMPANY
CAPITAL IMPROVEMENTS
GOLF COURSE

Year	Greens(1)	Irrigation	Pavement Maint. Roac Parking Lot	Cart Paths	Equipment(2	Electric Cart Barn	Golf Cars(3)	Total
2003					$60,000			$60,000
2004					$61,200			$61,200
2005		$1,669,842	$208,080		$62,424			$1,940,346
2006	$106,121				$63,672	$265,302	$155,033	$590,128
2007	$108,243				$64,946		$158,134	$331,323
2008	$110,408			$496,836	$66,245		$161,296	$834,786
2009	$112,616				$67,570		$164,522	$344,708
2010	$114,869				$68,921		$167,813	$351,602
2011	$117,166				$70,300		$171,169	$358,634
2012	$119,509				$71,706		$174,592	$365,807
2013	$121,899				$73,140		$178,084	$373,123
2014	$124,337				$74,602		$181,646	$380,586
2015					$76,095		$185,279	$261,373
2016					$77,616		$188,984	$266,601
2017					$79,169		$192,764	$271,933
2018					$80,752		$196,619	$277,371
2019					$82,367		$200,552	$282,919
2020					$84,014		$204,563	$288,577
2021					$85,695		$208,654	$294,349
2022					$87,409		$212,827	$300,236
2023					$89,157		$217,084	$306,240
2024					$90,940		$221,425	$312,365
2025							$225,854	$225,854
2026							$230,371	$230,371
2027							$234,978	$234,978

(1) 4 Greens per year for 36 greens. (2) Golf course equipment, such as mowers. (3) 4 year leases, not purchase.

Estimated Inflation = 2.0%

(continued

SUNOL VALLEY GOLF & RECREATION COMPANY
CAPITAL IMPROVEMENTS
CLUBHOUSE

Year	Carpet	Roof	Dancefloor	Tables & Chairs			Office Eq./ Computers	Remodel Cafe/Bar		Total
2003							$15,000			$15,000
2004							$15,300	$153,000		$168,300
2005	$83,232						$15,606			$98,838
2006		$159,181	$21,224				$15,918			$196,323
2007							$16,236			$16,236
2008				$88,326			$16,561			$104,888
2009							$16,892			$16,892
2010	$91,895						$17,230			$109,125
2011							$17,575			$17,575
2012							$17,926			$17,926
2013							$18,285			$18,285
2014							$18,651			$18,651
2015	$101,459						$19,024			$120,483
2016							$19,404			$19,404
2017							$19,792			$19,792
2018							$20,188			$20,188
2019							$20,592			$20,592
2020	$112,019						$21,004			$133,023
2021							$21,424			$21,424
2022							$21,852			$21,852
2023							$22,289			$22,289
2024							$22,735			$22,735
2025							$23,190			$23,190
2026							$23,653			$23,653
2027							$24,127			$24,127

* Covered by annual repair and maintance expenditures.

Source: Dornbusch Associates

Total + **$1,290,792**
9,545,410
$10,836,202

MEMORANDUM

TO: BUDGET ANALYST

FROM: GARRETT M. DOWD, DIRECTOR, SFPUC REAL ESTATE SERVICES

DATE: 10/29/03

RE: SUNOL VALLEY GOLF COURSE LEASE NEGOTIATION

Per your request, I write to further address a number of issues related to the above referenced Lease negotiation. The first issue deals with the fact that the existing Lease has been in a Month-to-Month Holdover since August 31, 2001 and the fact that the SFPUC did not formally take action to approve a Six-Year Extension Option contained in the Lease. The second issue deals with the fact that the proposed new 25-year Lease was not put out to public bid.

Month-to-Month Holdover/ Six-Year Extension Option

As to the length of the Month-to-Month Holdover the reasons are many and somewhat complicated. First and foremost, there has been serious concern over the ability to find a reliable water supply for the golf course. Traditionally Sunol Golf Course has been able to draw water directly from Alameda Creek to irrigate the course; however, in recent years this has become a major problem due to annual grading that had taken place in Alameda Creek and concern that such grading might be impacting aquatic life. To remedy this situation, staff has been working with the Lessee for well over a year and a half to design a project, which will result in a direct connection to the SFPUC's water system thus protecting Alameda Creek from future impacts and guaranteeing a reliable water supply. This project has involved numerous reviews from environmental agencies, consultants, SFPUC staff, and the City Attorney's Office.

In addition to the water supply issue, a dam spillway on the property had to be re-engineered and redesigned so as to protect a major petroleum pipeline from erosion problems at the base of the dam spillway. Over the past few years, overflow in wet weather months has been undercutting the petroleum pipeline and without a well-engineered solution the pipeline could fail causing an environmental disaster. Given that the SFPUC is the underlying fee owner of the property, liability concerns have been first and foremost.

The goal from the outset of Lease negotiations has been to solve both the water supply issue and the pipeline problem, in as expeditious a way as possible, with as little capital outlay from the City as possible

While simultaneously dealing with the aforementioned issues, staff also engaged the services of Dornbusch Associates to perform an independent assessment of the economics of the Original Lease and Sunol Valley Golf's potential future operations at the course. This assessment took a number of months to complete because there were a number of unknowns as to costs associated with the aforementioned issues (water supply remedies and the petroleum pipeline issue). In a typical domino effect, only after all pertinent cost data was gathered could the SFPUC or the tenant make an educated decision as to what the best direction was for future course operations. Thus the tenant (while reluctant) was willing to remain in a Month-to-Month holdover situation until all studies and reports were completed. Once that data was obtained, Dornbusch Associates were able to plug in the appropriate figures and make a formal presentation to the SFPUC resulting in the recommendation that is being presented to the Board of Supervisors.

In summary, the SFPUC did not approve the Six-Year Extension Option because at the time the tenant sent notice to exercise the option there were too many unknowns regarding continued water supply, costs associated with corrective action for the petroleum pipeline, and essential capital improvements needed at the course. Instead, the SFPUC opted to act in good faith and leave the Lease in a Month-to- Month Holdover until all cost data related to the aforementioned issues could be obtained and Dornbusch and Associates completed a formal study as to the appropriate business terms.

Public Bid Process

After receiving the Dornbusch Associates assessment, the SFPUC approved a new twenty-five year Lease with the current tenant. There were a number of reasons the SFPUC opted for a direct negotiation and a long term Lease, the most important of which are as follows: (1) the current Lease Agreement contains an Option Clause that allows Sunol Valley Golf Course to continue operation of the course for an additional six-year term. The clause reads, "The parties hereto mutually covenant and agree to negotiate as to the terms, conditions and rental rate for said extension, and if such negotiation results in mutual understanding and agreement, Commission, by resolution, shall grant such extension of term, subject to the covenants and conditions arrived at through such negotiations, **"which covenants and conditions shall be reasonable and fair."** On July 6, 2000 Sunol Valley Golf submitted a formal letter asking to exercise their option per the terms of the original Lease Agreement. Thus, the SFPUC had certain obligations to work with the current lessee to develop a "reasonable and fair" plan for Sunol Valley Golf's continued tenancy for at least the next six years; (2) critical and time sensitive issues related to water supply and storage and petroleum pipeline protection at the course could not be put off any longer (certainly not six years). If a direct long-term deal was not negotiated with Sunol Golf Course it is possible they could have chosen not to move forward with the Six-Year Extension Option either leaving the City in a very precarious position. In fact, given the Month-to Month term on the existing Lease the lessee could have vacated the premises with as little as 30 days notice. The City would have had to

find a new lessee in short order willing to take on $2.1 million dollars of "Required Work" and as much as $10.8 million dollars on golf course and clubhouse improvements and find a way to keep the course functioning properly throughout the entire process; (3) Sunol Golf Course has a proven (40 year) track record with the City and County of San Francisco. They have continuously proven their dedication to the facility, which was originally built by them. In order to accomplish the "Required Work" in an expedited manner this relationship was essential; (4) it is anticipated the costly improvements ($2.1 million dollars in "Required Work" and $10.8 million dollars in golf course and clubhouse upgrades) would have an adverse impact on any bid process. The bid process could have taken anywhere from 1-½ - 2 years to complete and award, as was the SFPUC's experience with Crystal Springs Golf Course in 1997. Most importantly, the SFPUC would only now be beginning the bid process given all the data that had to be obtained (water supply and pipeline remedies) and no assurances could be given that the bid wouldn't be contested by one or more of the bid participants causing even further delay and continued liability for the City.

In summary the critical work at the course could not and cannot wait any longer. The SFPUC has been very pleased with Sunol Golf Course's willingness to perform the "Required Work" and they have been very cooperative and acted in good faith throughout the negotiation process. The SFPUC is also in full support of the recommendations outlined in the Dornbusch Analysis. Upon approval of the new Lease all of the above referenced critical projects will immediately commence.

If I can offer further explanation as to any of the issues raised please feel free to contact me directly at 487-5211.

Attachment IV

DEPARTMENT Real Estate Services AGENDA NO.

MEETING DATE September 23, 2003

SUMMARY OF PROPOSED ACTION:

Authorizing the General Manager of Public Utilities to execute on behalf of the City and County of San Francisco a lease with Sunol Valley Golf & Recreation Company (SVG&R) for approximately 280 acres of San Francisco Public Utilities Commission (SFPUC) land located on a portion of Parcels 61 and 65 of Alameda County Lands, Sunol, California, for the continued operation of a public golf course and related facilities located in Sunol, California.

Sunol Valley Golf & Recreation Company has been on a month-to-month holdover since August 31, 2001. Numerous issues related to the golf course water system operation delayed the lease extension negotiations, such as the need for the lessee to cease diverting water directly from Alameda Creek in favor of a connection to the SFPUC water system. While simultaneously addressing the aforementioned issues, staff also engaged the services of Dornbusch Associates, at Lessee's expense, to perform an independent assessment of the economics of the Original Lease and future operations of the Premises.

The following is a summary of the **key findings by Dornbusch Associates** regarding Sunol Golf Course:

- The Sunol Valley Golf and Recreation Co. (SVG&R) has demonstrated its qualifications to continue to manage the property and the City would like SVG&R to continue to manage the property, to invest in significant improvements to the golf course and clubhouse, as well as to invest in special projects necessary to rehabilitate the golf course water supply infrastructure.
- The Bay Area golf market has softened considerably over the past several years as a result of a major expansion of the golf inventory that occurred in the mid to late 1990s, combined with the effects of an economy in recession.
- Until the recent economic down turn, golf revenues at Sunol Golf Course increased fairly steadily. Even through the decline in revenues, SVG&R managed its costs to sustain a healthy profitability. Future revenues are expected to grow again when the economy improves.
- SVG&R are presently faced with a significant financial burden. New investments are required to improve the course's irrigation system, replace the greens, remodel the café/bar, repave the maintenance road and parking lot, replace the golf cart barn, and to rehabilitate the golf course water supply infrastructure. The most urgent improvement is the installation of a new water supply connection to the Sunol Aqueduct to ensure the continued reliable delivery of irrigation water for the operation of the golf course (the "Irrigation Supply System Project").
- SVG&R has made investments in the past and would need a long-term lease to justify new investments.

Recommendations From Independent Appraiser

- Given the substantial Capital Improvements that need to be made at the course, SVG&R needs a new lease term of 25 years in order to realize an appropriate rate of return, commensurate with its financial and operating risks.
- By reducing the rent on green fees, tournaments and golf cart rental to half their current levels for the next five years, then restoring the percentages to the current levels for the remainder of the lease term, SVG&R might expect a 16.6% rate of return, somewhat closer to, but still below, the 17% to 21% range which is a reasonable target for the industry.
- Rent reduction is necessitated by the nearly $2.1 million in Required Work that SVG&R is expected to fund in the first year, in addition to substantial future capital improvements needed both for the golf course and clubhouse.

Special Lease Clauses: 8.2, 8.3, [context in brackets]

8.2 Required Work:

(a) Tenant shall perform, at Tenant's sole cost and expense, certain Improvements and Alterations to the Premises, including without limitation, the Fuel Pipeline Project [a future project, subject to permitting, environmental clearance and City approval, to redesign the spillways of two irrigation ponds to eliminate erosion in vicinity of a fuel pipeline crossing the golf course], the Irrigation Supply System Project [a permanent connection to Sunol Aqueduct to allow lessee to cease pumping irrigation water directly from Alameda Creek] and Irrigation System Improvements [future irrigation system work designed to improve water use efficiency, subject to City approval]. In no event shall the completion of the Required Work be extended beyond 2 (two) years following the Commencement Date. Based on current estimates the cost of Required Work will be approximately $2,096,998.00.

8.3 Capital Improvement Program.

(a) Tenant shall establish and maintain a separate, interest-bearing account (the "Capital Improvement Fund"). Tenant shall, on or before the twentieth (20th) day of each month, deposit an amount into the Capital Improvements Fund equal to (i) two percent (2%) of the Gross Revenues from the preceding month in Lease Years 1 through 25. Such funds are to be held by Tenant in trust for the benefit of the City's interest in the Premises, including its reversionary interest in the Premises upon the expiration or earlier termination of this Lease. Interest earned on funds held in such account shall become part of the Capital Improvement Fund and all amounts remaining in the Capital Improvement Fund at the end of the Term or any earlier termination of this Lease shall be remitted to City.

(b) Funds held in the Capital Improvement Fund shall be used exclusively for the construction, repair and replacement of capital items, including Improvements, fixtures, furniture or equipment, which are needed to repair or replace, over time, capital items which are subject to wearing out after a useful life and which are included in, located on or used in connection with the Premises, and which if not maintained or repaired, could adversely affect the City's interest in the Premises, including its reversionary interest in the Premises upon the expiration or earlier termination of this Lease. Construction of any such capital improvements shall be conducted in accordance with all provisions of Section 8.1. Funds held in the Capital Improvement Fund may not be expended for any of the Required Work.

Gross Revenues - Sunol Valley Golf and Recreation Co.

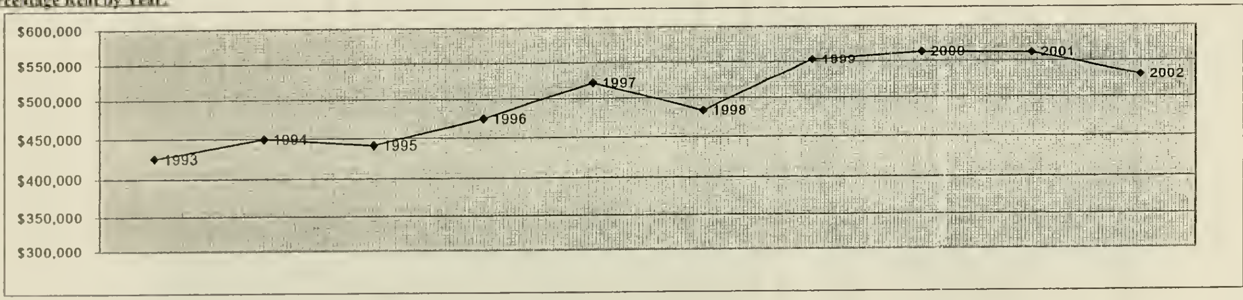
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Green Fees	$ 1,993,363	$ 2,133,622	$ 2,103,913	$ 2,321,527	$ 2,582,950	$ 2,351,849	$ 2,776,909	$ 2,845,114	$ 2,887,894	$ 2,764,333
Cart Revenue	991,233	1,008,716	961,124	960,836	999,306	878,151	998,740	941,320	965,941	956,334
Concession Revenue	2,144,746	2,247,816	2,211,970	2,349,497	2,587,714	2,472,312	2,733,183	2,813,892	2,732,904	2,497,741
Total	$ 5,129,342	$ 5,390,153	$ 5,277,007	$ 5,631,860	$ 6,169,970	$ 5,702,312	$ 6,508,832	$ 6,600,326	$ 6,586,739	$ 6,218,408
Percent Change		5.1%	-2.1%	6.7%	9.6%	-7.6%	14.1%	1.4%	-0.2%	-5.6%

Percentage Rent Paid to PUC by Sunol Valley Golf and Recreation Co.

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Green Fees: 10%	$ 199,336	$ 213,362	$ 210,391	$ 232,153	$ 258,295	$ 235,185	$ 277,691	$ 284,511	$ 288,789	$ 276,433
Cart Revenue: 5%	49,562	50,436	48,056	48,042	49,965	43,908	49,937	47,066	48,297	47,817
Concession Revenue: 8.25%	176,942	185,445	182,488	193,834	213,486	203,966	225,488	232,146	225,465	206,064
Total	$ 425,839	$ 449,243	$ 440,935	$ 474,028	$ 521,747	$ 483,058	$ 553,115	$ 563,723	$ 562,551	$ 530,314
Percent Change		5.5%	-1.8%	7.5%	10.1%	-7.4%	14.5%	1.9%	-0.2%	-5.7%

Total Rents Paid:	$	5,004,55
Avg. Per year:	$	500,455.3
Avg. Per month:	$	41,704.6

Graph of Percentage Rent by Year:



Source : Prepared by Budget Analyst using source data supplied by Public Utilities Commission.

EXHIBIT 3A

SUNOL VALLEY GOLF & RECREATION COMPANY
PROJECTED CASH FLOW & INTERNAL RATE OF RETURN
NEW CONTRACT
25 YEARS - CURRENT RENT

CAPITAL INVESTMENT		
Period	Improvements	Investment
2003-2022	Golf Course	$11,642,408
2003-2022	Club House	$1,290,792
Total		$12,933,200
Capital Investment Value		$1,499,238
INFLATION		
Inflation Assumed @		2.0%

DEPRECIATION SCHEDULE	
Depreciated Category	Life Expectancy
Furniture, Fixtures & Equipment (1)	10 Years
Pavement (2)	11 Years
Greens (2)	14 Years
Irrigation (2)	20 Years
Buildings (3)	35 Years

(1) Marshall & Swift, Life Expectancy Guidelines Section 97, Page 15
(2) Marshall & Swift, Life Expectancy Guidelines Section 97, Page 13
(3) Marshall & Swift, Life Expectancy Guidelines Section 97, Pages 5-6

PROPOSED RENT STRUCTURE		
Category	Estimated % of Gross	% Rent
Green Fees & Trnmt	46%	10.00%
Golf Car Rentals	15%	5.00%
Merchandise Sales	8%	8.25%
Food & Beverage	31%	3.25%
Other Revenues	0%	7.00%
Effective Rate on Total Revenues		8.57%

Contract Year Beginning July 1	Initial Net Capital Investment	Pre-SF Rent Pre-Tax Cash Flow	New Capital Investments	Working Capital Personal Property Recovery	Total Revenue	Rent	Annual Cash Flow
2003	($1,499,238)	$1,196,786	($2,171,998)		$6,325,146	($541,907)	($3,016,357)
2004		$1,220,722	($229,500)		$6,451,649	($552,745)	$438,477
2005		$1,485,705	($2,039,184)		$6,580,682	($563,800)	($1,117,279)
2006		$1,515,419	($786,452)		$6,712,296	($575,076)	$153,891
2007		$1,545,727	($347,559)		$6,846,542	($586,577)	$611,590
2008		$1,576,642	($939,673)		$6,983,473	($598,309)	$38,659
2009		$1,608,174	($361,601)		$7,123,142	($610,275)	$636,299
2010		$1,640,338	($460,727)		$7,265,605	($622,481)	$557,130
2011		$1,673,145	($376,209)		$7,410,917	($634,930)	$662,005
2012		$1,706,608	($383,733)		$7,559,136	($647,629)	$675,245
2013		$1,740,740	($391,408)		$7,710,318	($660,582)	$688,750
2014		$1,775,554	($399,236)		$7,864,525	($673,793)	$702,525
2015		$1,811,066	($381,856)		$8,021,815	($687,269)	$741,940
2016		$1,847,287	($286,005)		$8,182,251	($701,014)	$860,268
2017		$1,884,233	($291,725)		$8,345,896	($715,03[illegible])	$877,473
2018		$1,921,917	($297,559)		$8,512,814	($729,335)	$895,022
2019		$1,960,356	($303,511)		$8,683,071	($743,922)	$912,923
2020		$1,999,563	($421,600)		$8,856,732	($758,801)	$819,162
2021		$2,039,554	($315,772)		$9,033,867	($773,977)	$949,805
2022		$2,080,345	($322,088)		$9,214,544	($789,456)	$968,801
2023		$2,121,952	($328,530)		$9,398,835	($805,245)	$988,177
2024		$2,164,391	($335,100)		$9,586,812	($821,350)	$1,007,941
2025		$2,207,679	($249,043)		$9,778,548	($837,777)	$1,120,858
2026		$2,251,832	($254,024)		$9,974,119	($854,533)	$1,143,275
2027		$2,296,869	($259,105)	$88,865	$10,173,601	($871,623)	$1,255,006

Source: Dornbusch Associates

OPERATOR'S INTERNAL RATE OF RETURN: 12.6%

EXHIBIT 5B

SUNOL VALLEY GOLF & RECREATION COMPANY
PROJECTED CASH FLOW & INTERNAL RATE OF RETURN
NEW CONTRACT
25 YEARS - RENT REDUCTION 5 YEARS

CAPITAL INVESTMENT		
Period	Improvements	Investment
2003-2022	Golf Course	$0
2003-2022	Club House	$0
Total		$0
Capital Investment Value		$1,499,238
INFLATION		
Inflation Assumed @		2.0%

DEPRECIATION SCHEDULE	
Depreciated Category	Life Expectancy
Furniture, Fixtures & Equipment (1)	10 Years
Pavement (2)	11 Years
Greens (2)	14 Years
Irrigation (2)	20 Years
Buildings (3)	35 Years

(1) Marshall & Swift, Life Expectancy Guidelines Section 97, Page 15
(2) Marshall & Swift, Life Expectancy Guidelines Section 97, Page 13
(3) Marshall & Swift, Life Expectancy Guidelines Section 97, Pages 5-6

PROPOSED RENT STRUCTURE		
Category	Estimated % of Gross	% Rent
Green Fees & Trnmt	46%	10.00%
Golf Car Rentals	15%	5.00%
Merchandise Sales	8%	8.25%
Food & Beverage	31%	8.25%
Other Revenues	0%	7.00%
Effective Rate on Total Revenues		8.57%
Applied to Years 1 - 5		4.28%
Applied to Years 6 - 25		8.57%

Contract Year Beginning July 1	Initial Net Capital Investment	Pre-SF Rent Pre-Tax Cash Flow	New Capital Investments	Working Capital Personal Property Recovery	Total Revenue	Rent	Annual Cash Flow
2003	-$1,499,238	$1,196,786	-$2,171,998		$6,325,146	-$270,953	-$2,745,403
2004		$1,220,722	-$229,500		$6,451,649	-$276,373	$714,850
2005		$1,485,705	-$2,039,184		$6,580,682	-$281,900	-$835,379
2006		$1,515,419	-$786,452		$6,712,296	-$287,538	$441,429
2007		$1,545,727	-$347,559		$6,846,542	-$293,289	$904,879
2008		$1,576,642	-$939,673		$6,983,473	-$598,309	$38,659
2009		$1,608,174	-$361,601		$7,123,142	-$610,275	$636,299
2010		$1,640,338	-$460,727		$7,265,605	-$622,481	$557,130
2011		$1,673,145	-$376,209		$7,410,917	-$634,930	$662,005
2012		$1,706,608	-$383,733		$7,559,136	-$647,629	$675,245
2013		$1,740,740	-$391,408		$7,710,318	-$660,582	$688,750
2014		$1,775,554	-$399,236		$7,864,525	-$673,793	$702,525
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2019		$1,960,356	-$303,511		$8,683,071	-$743,922	$912,923
2020		$1,999,563	-$421,600		$8,856,732	-$758,801	$819,162
2021		$2,039,554	-$315,772		$9,033,867	-$773,977	$949,805
2022		$2,080,345	-$322,088		$9,214,544	-$789,456	$968,801
2023		$2,121,952	-$328,530		$9,398,835	-$805,245	$988,177
2024		$2,164,391	-$335,100		$9,586,812	-$821,350	$1,007,941
2025		$2,207,679	-$249,043		$9,778,548	-$837,777	$1,120,858
2026		$2,251,832	-$254,024		$9,974,119	-$854,533	$1,143,275
2027		$2,296,869	-$259,105	$88,865	$10,173,601	-$871,623	$1,255,006

Source: Dornbusch Associates

OPERATOR'S INTERNAL RATE OF RETURN: 16.6%

MEMORANDUM

TO: BUDGET ANALYST

FROM: GARRETT M. DOWD, DIRECTOR, SFPUC REAL ESTATE SERVICES

DATE: 10/28/03

RE: SUNOL VALLEY REQUIRED WORK

Why are the improvements listed in 'Required Work' required?

In simplistic terms, there are ponds that hold irrigation water for the golf course. Each pond has a spillway. At the base of one of the spillways is a petroleum pipeline in jeopardy of being undercut by erosion which could snap the pipeline and cause a disastrous environmental clean up issue and knock out a major petroleum line supplying the Bay Area. The second part of the project deals with the Irrigation Supply System connecting and supplying the ponds which is essential to continued uninterrupted water supply at the course. No water = no golf course.

MEMORANDUM

TO: BUDGET ANALYST

FROM: GARRETT M. DOWD, DIRECTOR, SFPUC REAL ESTATE SERVICES

DATE: 10/23/03

RE: SUNOL VALLEY GOLF COURSE : PROPOSED RENT CONDITIONS

In response to your inquiry as to how the Minimum Base Rents were derived for the above referenced lease please note the following approach was taken:

Actual percentage rents for the past three years were analyzed and after negotiations with the tenant it was agreed that we would use 90% of the average rent paid to SFPUC as Base Rent. We then took 1/2 of that sum for the first five years in line with the recommendations in the Dornbusch Report.

In regards to how the proposed percentage rents were derived, percentage rents were recommended by Dornbusch Associates based on considerations of total required work, total capital improvements, and an appropriate rate of return to the operator. As part of the exercise he was told to try to at least keep the existing rent structure or as close to it as possible.

If I can offer further explanation as to any of the issues raised please feel free to contact me directly at 487-5211.

BOARD of SUPERVISORS

City Hall
Dr. Carlton B. Goodlett Place, Room 244
San Francisco 94102-4689
Tel. No. 554-5184
Fax No. 554-5163
TDD/TTY No. 544-5227

NOTICE OF CANCELLED MEETING

FINANCE AND AUDITS COMMITTEE

SAN FRANCISCO BOARD OF SUPERVISORS

NOTICE IS HEREBY GIVEN that the meeting of the Finance and Audits Committee scheduled for November 26, 2003 at 12:30 p.m., at 1 Dr. Carlton B. Goodlett Place, Room 263, City Hall, San Francisco, California, has been **cancelled**.

Gloria L. Young, Clerk of the Board

POSTED: November 20, 2003

City and County of San Francisco
Meeting Minutes
Finance and Audits Committee

Members: Aaron Peskin, Gerardo Sandoval and Jake McGoldrick

Clerk: Linda Laws

Wednesday, December 03, 2003 | **12:30 PM** | **City Hall, Room 263**

Special Meeting

Members Present: Aaron Peskin, Gerardo Sandoval, Jake McGoldrick.

MEETING CONVENED

The meeting convened at 12:42 p.m.

REGULAR AGENDA

031249 [Cruise Terminal at Piers 30-32]

Supervisor Sandoval

Hearing regarding the fiscal implications and budgetary constraints of establishing shore side power hook-ups and alternative fuel technologies related to the cruise terminal at Piers 30-32.

7/15/03, RECEIVED AND ASSIGNED to Finance and Audits Committee. Sponsor requests this item be scheduled for consideration at the September 17, 2003 meeting.

11/19/03, CONTINUED. Speakers: None.
Continued to 12/3/03.

Speakers: None.
Continued to 12/10/03.

CONTINUED by the following vote:
Ayes: 3 - Peskin, Sandoval, McGoldrick

031526 [Airport Concession Lease]

Resolution approving Amendment No. 3 to the Post-Security Master Retail/Duty Free Concession in the New International Terminal Building Lease No. 99-0035 between DFS Group, L.P. and the City and County of San Francisco, acting by and through its Airport Commission. (Airport Commission)

(Fiscal impact; No Public Benefit Recipient.)

9/12/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

Speakers: None.
Continued to 12/10/03.

CONTINUED by the following vote:
Ayes: 3 - Peskin, Sandoval, McGoldrick

031816 [Port Lease for the Boudin Restaurant and Bakery at Fisherman's Wharf]

Supervisor Peskin

Resolution approving the Lease between the San Francisco Port Commission and Boudin Properties, Inc., a California corporation, for the Boudin Restaurant and Bakery located at 160 Jefferson Street at Fisherman's Wharf, for a total maximum term of forty-two years.

(Public Benefit Recipient.)

11/4/03, RECEIVED AND ASSIGNED to Land Use Committee.

11/14/03, TRANSFERRED to Finance and Audits Committee.

Heard in Committee. Speakers: Kenneth Winters, Real Estate Division; Harvey Rose, Budget Analyst; Lou Girardo, Boudin Properties, Inc.

RECOMMENDED by the following vote:

Ayes: 3 - Peskin, Sandoval, McGoldrick

031796 [Management audit of San Francisco International Airport's Airfield Development Bureau]

Supervisor Peskin

Hearing regarding findings and recommendations included in the Budget Analyst management audit of San Francisco International Airport's Airfield Development Bureau.

10/28/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

Heard in Committee. Speaker: Eileen Boken.
Continued to 12/10/03.

CONTINUED by the following vote:

Ayes: 3 - Peskin, Sandoval, McGoldrick

031717 [Reserved Funds, Fire Department]

Hearing to consider release of reserved funds, Fire Department fiscal year 2003-04 Budget, in the amount of $3,903,139, to fund the Department's training function. (Fire Department)

10/24/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

Heard in Committee. Speakers: Asst. Deputy Chief Joanne Hayes-White, SFFD; Ben Rosenfield, Mayor's Office; Monique Zmuda, Controller's Office; Harvey Rose, Budget Analyst; Dr. Michael Kassner, SF General; Jim Corrigan; Captain Rene Rivel, SFFD.
Release of reserved funds in the amount of $2,360,000 approved.

APPROVED AND FILED by the following vote:

Ayes: 3 - Peskin, Sandoval, McGoldrick

031872 [To appropriate funding for the December 2003 run-off election]

Mayor

Ordinance appropriating $2,016,330 from the Proposition A Implementation Project and re-appropriating $274,000 of permanent salaries for a total of $2,290,330 to the operating fund for temporary salaries, non-personal services, materials and supplies and services of other departments associated with the December 2003 run-off election for the Department of Elections for fiscal year 2003-04.

(Fiscal impact.)

11/18/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

Heard in Committee. Speakers: John Arntz, Department of Elections; Sheriff Michael Hennessey; Ben Rosenfield, Mayor's Office.

CONTINUED TO CALL OF THE CHAIR by the following vote:

Ayes: 3 - Peskin, Sandoval, McGoldrick

031831 [Agreement to exchange real property related to the former Central Freeway parcels in the Hayes Valley neighborhood]

Resolution approving and authorizing agreements for the exchange of certain real property known generally as a portion of Block 761, Lot 23 with the State of California; for those certain parcels described generally as portions of Block 792, Lot 28, Block 808, Lot 36, and Block 785, Lot 29; adopting findings pursuant to the California Environmental Quality Act; adopting findings that the conveyance is consistent with the City's general plan and eight priority policies of City Planning Code section 101.1; and authorizing the Director of Property to execute documents and take certain actions in furtherance of this resolution. (Real Estate Department)

(Public Benefit Recipient.)

11/6/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

11/24/03, CLERICAL CORRECTION. Clerical corrections made per Supervisor Peskin and City Attorney; Amendment of the Whole to be presented in committee on 12/3/03; advertised pending adoption by committee; new title.

Heard in Committee. Speaker: Steve Legnitto, Real Estate Division.

RECOMMENDED AS AMENDED by the following vote:

Ayes: 3 - Peskin, Sandoval, McGoldrick

031836 [Contracting out Status Offender Shelter and Intake Services]

Supervisor Dufty

Resolution concurring with the Controller's certification that Intake and Shelter Services to Status Offenders can be practically performed by private contractor for lower cost than similar services performed by City and County employees. (Juvenile Probation Department)

(Public Benefit Recipient.)

11/13/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

Heard in Committee. Speaker: Monique Zmuda, Controller's Office.

RECOMMENDED by the following vote:

Ayes: 3 - Peskin, Sandoval, McGoldrick

031851 **[Transfer State funds to CMHDA for contract services to improve access to mental health treatment for children in foster care and other children placed outside of San Francisco]**

Resolution endorsing the transfer of State general funds from the State to the California Mental Health Directors Association for a contract to provide services to foster care and other Medi-Cal eligible children placed outside of San Francisco, for the period of July 1, 2003 through June 30, 2004. (Public Health Department)

(Public Benefit Recipient.)

11/12/03, RECEIVED AND ASSIGNED to Finance and Audits Committee. Department requests this item be scheduled for consideration at the November 26, 2003 meeting.

11/17/03, REFERRED TO DEPARTMENT. Referred to Youth Commission for comment and recommendation.

12/2/03, RESPONSE RECEIVED. Youth Commission supports resolution.

Speakers: None.

RECOMMENDED by the following vote:

Ayes: 3 - Peskin, Sandoval, McGoldrick

031812 **[Increasing civil filing and appearance fees provided in Business and Professions Code for operation of the Law Library]**

Supervisor Dufty

Resolution increasing civil filing and appearance fees provided in Business and Professions Code Sections 6321, 6322 and 6322.1 for operation of the Law Library.

11/4/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

11/17/03, REFERRED TO DEPARTMENT. Referred to Planning Department for environmental review.

11/22/03, 11/29/03 Fee ad publication dates.

12/1/03, RESPONSE RECEIVED. Statutorily exempt from CEQA Guidelines Section 15273, Rates, Tolls, Fares and Charges.

Heard in Committee. Speakers: Harvey Rose, Budget Analyst; Ted Lakey, Deputy City Attorney.

RECOMMENDED by the following vote:

Ayes: 3 - Peskin, Sandoval, McGoldrick

031747 **[Revising permit fee and planning review surcharges applicable to permits and review activities subject to review by the Board of Appeals]**

Supervisor Peskin

Ordinance amending the Administrative Code by amending Section 10G.1 to correct erroneous Planning and Building Code citations, revising permit surcharges on permits issued by the Department of Building Inspection, the Taxi Commission, the Police Department and the Department of Public Works permits where such permits are subject to appeal before the Board of Appeals, revising the surcharge on fees imposed by the Planning Department for review of permits where such permits are subject to appeal before the Board of Appeals, and making environmental findings.

10/21/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

10/30/03, REFERRED TO DEPARTMENT. Referred to Planning Department for environmental review.

11/15/03 Fee ad publication date; 11/22/03, 11/29/03 New fee ad publication dates.

12/1/03, RESPONSE RECEIVED. Statutorily exempt from CEQA Guidelines Section 15273, Rates, Tolls, Fares and Charges.

Heard in Committee. Speakers: Harvey Rose, Budget Analyst; Ted Lakey, Deputy City Attorney.
12/3/03 At page 2 line 5 after "of" replace "9.74" with "10.00"; line 8 after "of" replace "9.74" with "10.00"; lines 10 and 11 after "of" replace "82 cents ($0.82)" with "$1.00"; line 14 after "of" replace "6.91" with "7.00"; at line 17 replace "8.78" with "9.00".

AMENDED.

RECOMMENDED AS AMENDED by the following vote:

Ayes: 3 - Peskin, Sandoval, McGoldrick

031716 **[Airport Lease Disposition and Development Agreement and Lease]**
Supervisor Hall
Resolution approving the Lease Disposition and Development Agreement and Lease of Plot 9 between Airis SFO, LLC and the City and County of San Francisco, acting by and through its Airport Commission. (Airport Commission)

(No Public Benefit Recipient.)

10/10/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

Heard in Committee. Speakers: Harvey Rose, Budget Analyst; Ken Bruce, Budget Analyst's Office; Cathy Widener, SFO; Supervisor Hall; Alex Fedor, Airline Liaison Office; David Fries, AMB Property Corporation; Monique Zmuda, Controller's Office; Ron Factor, Airis; Canan Factor, Airis; Laura Luster, Luster National; Derek Smith; Derf Butler; Bob Morales; Clonia Cautis; Howard Chen; Ken Nim; Fred Jordan; Walter Johnson; Chris Roberts; Bob Wong; Mark Gleason, Local 665; William Mak; Eileen Boken; Winfield Campbell; Male Speaker; Lock Holmes; Justin Factor; Robert Hedrick; Matt Kliszewski; Todd Ewing, SF Chamber of Commerce; Susan Gallardo; Robert Sims; Edward Gee; N. Namin; Neil Maxfield; Bob McCarthy; Jason Haynes.

TABLED by the following vote:
Ayes: 2 - Peskin, McGoldrick
Noes: 1 - Sandoval

031726 **[Amendment to Paratransit Broker Contract]**
Resolution approving Contract Amendment No. 3 to Paratransit Broker Agreement with ATC/Vancom, Inc., the City's Paratransit Broker, to increase the total amount of the Agreement to a sum not to exceed $92,641,933, in order to meet the increased demand and costs for paratransit service during the contract period. (Municipal Transportation Agency)

(Fiscal impact; Public Benefit Recipient.)

10/17/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

Heard in Committee. Speakers: Annette Williams, MUNI; Ted Lakey, Deputy City Attorney.
12/3/03 Amend the title on page 1 line 5 after "exceed" replace "$92,641,933" with "$77,333,277". At page 2 line 4 after "exceed" replace "$92,641,933" with "$77,333,277"; line 12 after "by" replace "$26,308,656" with "$11,308,656"; line 13 after "exceed" replace "$92,641,333" with "$77,333,277".

AMENDED.

Resolution approving Contract Amendment No. 3 to Paratransit Broker Agreement with ATC/Vancom, Inc., the City's Paratransit Broker, to increase the total amount of the Agreement to a sum not to exceed $77,333,277, in order to meet the increased demand and costs for paratransit service during the contract period. (Municipal Transportation Agency)

(Fiscal impact; Public Benefit Recipient.)

Heard in Committee. Speakers: Annette Williams, MUNI; Ted Lakey, Deputy City Attorney.

RECOMMENDED AS AMENDED by the following vote:
Ayes: 3 - Peskin, Sandoval, McGoldrick

031243 **[Contingency Fee Agreement]**

Supervisor Peskin

Resolution approving and authorizing a contingency fee agreement between the City and a law firm selected by the City Attorney, in connection with the litigation initiated by the City Attorney against Scott Company of California and related entities over construction projects at the San Francisco International Airport.

(Fiscal impact.)

7/15/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

Heard in Committee. Speakers: Joanne Hoeper and Ted Lakey, Deputy City Attorneys.

RECOMMENDED by the following vote:

Ayes: 3 - Peskin, Sandoval, McGoldrick

031710 **[Airport Concession Leases]**

Supervisors McGoldrick, Sandoval

Resolution approving the twenty-eight (28) leases for the Airport's Domestic Terminal Food and Beverage Redevelopment Program - between Lori's Diner International, Inc.; Andale SFO; Sanraku, Inc.; Meyers Holdings, LLC, Firewood Café, Series I-II; Fung Lum Express, LLC; Bayport Concessions, LLC; Bay Area Restaurant Group Joint Venture; GDDC, Inc.; Tomokazu Japanese Cuisine (SFO), Inc.; (Jonathan Leong) L & H, LLC; H. Young Enterprises, Inc.; WSE Group; San Francisco Soup Co., Inc.; Guava & Java (SFO), Inc.; J. Avery Enterprises; Gotham Enterprises, LLC, SFO Coffee IV-VI Series; H. Young Enterprises; Susie Lee Tong Enterprises, Inc.; Lady Luck Gourmet, LLC; Creative Host Services, Inc.; D-Lew Enterprises, LLC; Burger Joint, Inc.; Creative Host Services, Inc.; Emporio Rulli, Inc.; Bay Area Restaurant Group Joint Venture; D-Lew Enterprises, LLC; Bay Area Restaurant Group Joint Venture; Andre-Boudin Bakeries, Inc., each as a tenant, and the City and County of San Francisco, acting by and through its Airport Commission, as landlord.

(Fiscal impact.)

10/7/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

11/19/03, CONTINUED. Heard in Committee. Speakers: Peter Nardosa, SFO; Dave Pfeiffer, SFO; Harvey Rose, Budget Analyst; Bruce Boudreau, Leigh Fisher Associates; Alex Fedor, SFO Airline Office; Gary Rulli, Emporio Rulli; Carmen Mayo, D-Lew Enterprises; Howard Young, Just Desserts; Avery McGinn, Klein's Deli Cafe; Luis Sanchez, Andale Mexican Restaurant; Midinel Levine, D-Lew Enterprises; Midal Nazal, Mission Bar & Grill; Man J. Kim, Lori's Diner International; Cheryl Adams, Deputy City Attorney. Continued to 12/3/03.

Supervisor Sandoval requested to be added as a co-sponsor.

Heard in Committee. Speakers: Harvey Rose, Budget Analyst; Dave Pfeiffer, SFO; Man J. Kim, Lori's Diner International; Alex Fedor, Airline Liaison Office.

RECOMMENDED by the following vote:

Ayes: 3 - Peskin, Sandoval, McGoldrick

031928 **[Lease of Property]**

Supervisor Peskin

Resolution authorizing a 25-year Lease of San Francisco Public Utilities Land between the City and County of San Francisco and Sunol Valley Golf & Recreation Co., in Alameda County.

(Fiscal impact; Public Benefit Recipient.)

11/25/03, RECEIVED AND ASSIGNED to Finance and Audits Committee. Sponsor requests this item be scheduled for consideration at the December 3, 2003 Special Meeting.

Heard in Committee. Speaker: Gary Dowd, SFPUC.

RECOMMENDED by the following vote:

Ayes: 3 - Peskin, Sandoval, McGoldrick

ADJOURNMENT

The meeting adjourned at 6:43 p.m.

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET ANALYST

1390 Market Street, Suite 1025, San Francisco, CA 94102 (415) 554-7642

FAX (415) 252-0461

November 26, 2003

TO: Finance and Audits Committee

FROM: Budget Analyst

SUBJECT: December 3, 2003 Finance and Audits Committee Meeting

Item 2 - File 03-1526

Department: Airport

Item: Resolution approving Amendment No. 3 to the Post-Security Master Retail/Duty Free Concession Lease at the Airport's International Terminal Building between DFS Group, L.P. and the City and County of San Francisco, acting by and through its Airport Commission.

Location: Airport's International Terminal

Lessor: City and County of San Francisco, acting by and through its Airport Commission

Lessee: The DFS Group L.P., a Delaware limited partnership ("DFS")

Effective Date of Lease Amendment No. 3: January 1, 2003- December 31, 2003 (see Comment No. 5)

Background: The subject lease agreement with DFS is for "post-security" retail space that is located beyond the security checkpoints in the International Terminal. This lease agreement, which was awarded on the basis of a competitive bid process, and which is a ten-year concession lease, commenced at the opening of the International Terminal in May of 2000 and will expire in

May of 2010. This lease agreement currently covers 57,353 square feet in 29 locations.[1] The lease was approved by the Board of Supervisors on April 5, 1999 (Resolution No. 283-99) and the subsequent Amendments No. 1 and No. 2 were approved by the Board of Supervisors on August 23, 2002 (Resolution No. 552-02).

Rent Payable by DFS To the Airport Under Original Lease:

Under the previously approved and executed concession lease, DFS is responsible for both the direct provision of duty-free[2] retail stores and the subleasing of non-duty free[3] retail stores.[4] The original concession lease required DFS to pay the Airport rent which is the greater of either (a) a Minimum Annual Guarantee (MAG) of $26,100,000[5] or (b) a percentage of annual gross revenues in accordance with the following table:

	Type of Sales	
Annual Gross Revenues	Duty Free	Non-Duty Free
Up to and including $50,000,000 ($4,166,667 monthly)	15%	12%
$50,000,000.01 to $100,000,000 ($4,166,667 to $8,333,333 monthly)	20%	14%
Over $100,000,000 (over $8,333,333 monthly)	25%	16%

Airport Concession Support Program:

On October 30, 2002, the Airport enacted the Airport Concession Support Program, which was previously approved by the Board of Supervisors (File No. 02-1230).

[1] The original lease covered 55,422 square feet in 57 locations, but was amended in January of 2000 (File No. 99-1869) to cover 57,353 square feet in 29 locations.
[2] "Duty-free" merchandise is defined as goods sold without taxation to international travelers for consumption outside of the United States of America.
[3] "Non-duty free" merchandise is defined as goods that are taxed at the point of sale.
[4] According to Ms. Patricia Maitland of the Airport, and as shown in Attachment I to this report, DFS operated in the International Terminal the duty-free stores as well as some of the non duty-free stores (California Wine Country Gourmet, Cool Tees stores, Leather Report, Mainspring Watches, San Francisco Bay Traders, San Francisco Wine Gourmet, and Soliton). Ms. Maitland states that the remaining non duty-free stores are subleased to other tenants.
[5] The duty-free and non duty-free stores were originally subject to a single MAG of $26,100,000 annually.

Under the Airport Concession Support Program, the MAG for duty-free sales was suspended retroactively from September 11, 2001 through December 31, 2002.[6] While the MAG was suspended during that 15½ month period, the duty-free stores paid rent at the rate of 30 percent of all gross revenues. The Airport Concession Support Program reinstated the MAG for the duty-free sales on January 1, 2003. The MAG for the non-duty free sales was also suspended and this suspension is still in effect and will not be lifted until monthly airline passenger departures exceed 85 percent of the number of departures in 2000 for two consecutive months, which has not occurred to date. Therefore, the non-duty free stores are paying rent at the rate of 12 percent of gross revenues annually because sales have not exceeded $50,000,000 annually. As required by the Concession Support Program, the non-duty free stores have been paying 12 percent of gross revenues since November 1, 2001. The Airport's Concession Support Program specifies that if the MAG for the duty free stores is reinstated before the MAG for the non duty-free stores, the MAG will be separated into a (1) duty-free MAG, and (2) a non duty-free MAG. The duty-free MAG is $23,490,000 annually, or 90 percent of the total MAG of $26,100,000. The non duty-free MAG is $2,610,000, or 10 percent of the total MAG of $26,100,000. As previously stated, the Airport Concession Support Program reinstated the duty-free MAG on January 1, 2003 and the non-duty free MAG is still suspended.

Description: The proposed resolution would approve Amendment No. 3 to the concession lease between DFS and the Airport. Amendment No. 3 would retroactively (1) suspend the duty-free MAG of $23,490,000 with respect to duty-free stores, and (2) establish a new duty-free rent schedule retroactive to January 1, 2003. The proposed resolution states that the duty-free MAG of $23,490,000 would be reinstated on January 1, 2004 or the 1st day of the consecutive month when the monthly gross revenues on duty-free sales equals or exceeds $5,000,000 per month. Amendment No. 3 also provides that once the duty-free MAG is reinstated, the duty-free MAG cannot be adjusted

[6] The Airport Concession Program allowed for a suspension of the MAG for the duty-free stores between September 11, 2001 and December 31, 2002 because gross revenues in the duty-free stores did not exceed $5,000,000 for two consecutive months during this time period.

or suspended again for the remainder of the current lease, which terminates in May of 2010. However, Amendment No. 3 also states that "on or before January 1, 2004, [the] Director shall review [the] tenant's duty free gross revenues for calendar year 2003 to determine if a further suspension of the tenant's MAG is warranted" (see Comment No. 6). Amendment No. 3 does not alter the status of the non-duty-free stores which continue to pay rent at the rate of 12 percent of gross revenues because the annual revenues are less than $50,000,000.

New Rent Schedules:

The proposed Amendment would establish two new duty-free rent schedules (1) retroactively from January 1, 2003 through December 31, 2003, and (2) from January 1, 2004 through May 1, 2010. The new retroactive duty-free rent schedule from January 1, 2003 through December 31, 2003, would be as follows:

Time Period	Duty-Free
January 1, 2003 – March 31, 2003	31%
April 1, 2003 – December 31, 2003	
Up to $3,000,000 in monthly sales	25%
$3,000,000 and over in monthly sales	31%

The above proposed new duty-free rent schedule would replace the existing lease requirement that DFS pay the greater of either (a) the duty-free MAG of $23,490,000, or (b) a percentage of annual gross revenues noted in the Section above entitled Rent Payable by DFS to the Airport Under Original Lease (see Comment No. 1).

Additionally, under Amendment No. 3, DFS would pay a monthly payment of $312,500 for any 2003 calendar month in which the duty-free gross revenues exceed the duty-free gross revenues by 10 percent or more for the same calendar month of 2002, retroactive to January 1, 2003. According to Ms. Patricia Maitland of the Airport, to date, the duty-free gross revenues in 2003 exceeded gross revenues by 10 percent or more for the same month of 2002 in January of 2003 and based on unauditted revenues figures and projections, this may also occur in October and December of 2003. Therefore, this provision

is projected to provide for an additional payment from DFS to the Airport in calendar year 2003 of $312,500 to $937,500 ($312,500 times 3 months).

As noted above, the proposed Amendment No. 3 also provides for a second new rent schedule from January 1, 2004 through May 1, 2010 which would require DFS to pay the Airport the greater of either (a) a duty-free MAG of $23,490,000 or (b) higher percentage of annual gross revenues shown below as compared to the percentages of annual gross revenues under the existing lease:

Annual Gross Revenues	Existing Lease for Duty-Free	Proposed Lease Amendment for Duty-Free as of January 1, 2004
Up to and including $50,000,000 ($4,166,667 monthly)	15%	20%
$50,000,000.01 - $100,000,000 ($4,166,667 to $8,333,333 monthly)	20%	25%
Over $100,000,000 (over $8,333,333 monthly)	25%	30%

As shown above, the proposed lease Amendment would also establish a new rent schedule from January 1, 2004 to May 1, 2010, which would retain the MAG of $23,490,00 and increase the percentage of annual gross revenues.

Comments:

1. Attachment II to this report, provided by Ms. Maitland, shows the duty-free stores gross monthly revenues[7], and rent owed and paid by DFS to the Airport for the duty-free stores from December 2000 through December 2003. Based on the data in Attachment II, under the existing lease Agreement, the duty-free stores would owe the duty-free MAG between January 1, 2003 and December 31, 2003 of $23,490,000 ($1,957,500 monthly) because the duty-free MAG would be greater than a percentage of annual gross revenues. As shown in Attachment II, under the proposed lease Amendment, the duty-free stores

[7] Attachment II details actual gross revenues for the duty-free stores from January 2003 through October 2003 and projected gross revenues in November and December 2003.

would owe a total of approximately $12,092,975 (including January payment of $312,500) between January 1, 2003 and December 31, 2003, which is $11,397,025 or 48.5 percent less in rent than the duty-free MAG which would be owed under the existing lease agreement. The Budget Analyst notes that under the proposed lease Amendment, DFS could owe an additional $625,000 ($312,500 for November and $312,500 for December) depending on whether gross revenues exceed by 10 percent gross revenues for the same months of 2002.

2. According to Mr. David Pfeiffer of the Airport, and as described in Attachment III to this report, a rent reduction of an estimated $11,397,025, or 48.5 percent, is warranted for the duty-free stores for calendar year 2003 because "duty free operations are completely tied to international passenger traffic, which has been severely and disproportionately effected by SARS [Severe Acute Respiratory Syndrome] and the Iraq war." Mr. Pfeiffer further notes that "DFS sought and was given economic relief at Honolulu and Los Angeles International Airports."

The Budget Analyst reviewed the Honolulu and Los Angeles International (LAX) Airports duty-free rent reduction agreements with DFS. According to Mr. Alan Chock of the Honolulu Airport, the Honolulu Airport did not suspend the MAG of $60,000,000 for DFS, but rather terminated and competitively bid the concession contract in September of 2003. Mr. Chock states that DFS was the only respondent to the request for proposals (RFP) and the Honolulu Airport awarded DFS the concession agreement in October of 2003. This award reflects a MAG of $40,000,000, which is $20,000,000 or 33.3 percent less in rent than the original concession agreement which had a MAG of $60,000,000. As noted above, San Francisco is recommending a 48.5 percent reduction in rent as compared to the 33.3. percent reduction in rent at the Honolulu Airport.

According to Ms. Rachel Miller of LAX, the terms of the LAX rent reduction program for DFS are as follows: (1) DFS is required to pay to LAX the full MAG of $37,000,000 in 2002, (2) the MAG is suspended for

calendar year 2003 through 2005, and (3) DFS will pay the LAX rent based on a percentage of gross revenues, 23 percent in 2003, 27 percent in 2004, and between 28 and 39 percent in 2005 depending on sales.[8] Ms. Miller states that the final rent reduction for DFS will not be known until actual gross revenues through 2005 are known.

3. Attachment IV to this report, also provided by Mr. Pfeiffer provides additional information regarding what the Airport believes would occur should the Board of Supervisors <u>not</u> provide the DFS with an approximately $11,397,025 or 48.5 percent rent reduction for calendar year 2003. Mr. Pfeiffer advises that:

> "If the Board of Supervisors fails to grant relief from the stipulated $23,500,000 [$23,490,000] *duty free sales* minimum annual guarantee, the effective concession rent in 2003 would exceed 60% of sales. A duty free concession rent at this level would be unprecedented in the duty free industry and would represent what Duty Free Stores (DFS) has stated would be untenable burden for them to handle, as it would be for any other duty free concessionaire."

According to Mr. Pfeiffer, and as described in Attachment V to this report, "DFS has indicated that the maximum rent it could pay as a percentage of gross revenues is 31 percent."

4. However, the Budget Analyst notes that the proposed Amendment would reduce duty-free rent to 25 percent of gross revenues retroactively from April 1, 2003 to December 31, 2003 if duty-free gross revenue are $3,000,000 or less, which is 6 percent <u>less</u> than the 31 percent that DFS has indicated to the Airport that DFS could pay. Based on the gross revenue data provided by the Airport as shown in Attachment II, under the proposed lease Amendment, DFS would retroactively pay 25 percent of gross revenues in April, May and June of 2003, which is 6 percent <u>less</u> than the 31 percent that DFS has indicated it could pay. Further, the data provided by the Airport in Attachment II shows that the

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[8] Ms. Miller advises that DFS would be required in 2005 to pay 28 percent for gross revenues of $75,000,000 or less, 32.5 percent for $75,000,001 to $100,000,000, 36.5 percent for $100,000,001to-$125,000,000, and 39 percent for $125,000,001 and above.

duty-free stores have actually paid in excess of 31 percent of gross revenues rent. For example, between December 2000 and August 1, 2001, rent paid by DFS for the duty-free stores averaged 45 percent of gross revenues.

Therefore, the Budget Analyst recommends that the proposed rent schedule for January 1, 2003 to December 31, 2003 be revised for the period of April 1, 2003 to December 31, 2003 from 25 percent of gross revenues up to $3,000,000 to 31 percent of gross revenues up to $3,000,000, an increase of 6 percent of gross revenues. As shown in Attachment II, if DFS paid 31 percent of all gross revenues the total rent payable for 2003 would be $12,560,590, or $467,615 more than the $12,092,975 proposed rent payable in 2003 under the subject lease amendment.

5. The Budget Analyst requested an explanation of why the Airport is requesting Board of Supervisors retroactive approval of the proposed lease amendment approximately 11 months after the proposed effective date, January 1, 2003. Attachment III to this report, provided by Mr. David Pfeiffer of the Airport states the following:

> "DFS first approached the Airport for MAG relief in January 2003; however, staff felt it important to verify that the passenger downturn adversely impacted DFS sales. Additionally, staff waited for HNL (Honolulu International Airport) and LAX (Los Angeles International Airport) to finish its relief package for DFS, as well as verifying the final impact of the Iraq War and SARS (Severe Acute Respiratory Syndrome) before finishing negotiations with DFS. They were just completed and approved by the Airport Commission last month."

However, as shown in Attachment II, the Airport has allowed DFS to pay the reduced rent since January of 2003, without first obtaining approval of the Board of Supervisors. The Budget Analyst further notes that this retroactive request for an approximately $11,397,025 or 48.5 percent reduction limits the options of the Board of Supervisors because DFS has benefited from a 48.5 percent rent reduction for the past 11 months without

first obtaining approval from the Board of Supervisors for such a rent reduction.

6. As previously stated, the proposed Amendment requires that the duty-free MAG be reinstated on January 1, 2004 or the 1st day of the consecutive month of the monthly Gross Revenues on duty free sales equals or exceeds $5,000,000 per month, whichever occurs first. Based on the Airport's projections shown in Attachment II to this report, the duty-free MAG would be reinstated January 1, 2004. The proposed Amendment also provides that once the duty-free MAG is reinstated, the duty-free MAG cannot be adjusted or suspended.

However, the proposed Amendment states that "on or before January 1, 2004, the Director would review DFS duty free Gross Revenues for calendar year 2003 to determine if a further suspension of the DFS MAG is warranted." According to Ms. Adrienne Go of the City Attorney's Office, suspending the duty-free MAG beyond December 31, 2003 would require approval from the Board of Supervisors regardless of the determination of the Director of the Airport. Ms. Go advises that while such approval of the Board of Supervisors is not explicitly stated in the proposed Amendment, such approval is required by the City's Charter.

7. As previously stated and as detailed in Attachment V, "DFS has indicated that the maximum rent it could pay as a percentage of gross revenues is 31 percent." Based on the Budget Analyst's analysis of the data provided by the Airport in Attachment II, in order for DFS to pay the duty-free MAG in 2004, the duty free stores would need to increase monthly gross revenues from the average of $3,292,497 in 2003 to a monthly average of $6,314,516 or by 91.8 percent. The Budget Analyst questions why the Airport believes that DFS could pay the duty-free MAG in 2004. In response to this point, as shown in Attachment V to this report, provided by Ms. Maitland, the Ms. Maitland states that:

> "In the event circumstances change in 2004, the Airport believes it is more fiscally responsible to contain the rent relief to the current Lease Year. For example, if there is an increase in passengers in the

2004 Lease Year, which could have a positive effect on duty free gross revenues, the Airport would not want to be committed to a rent reduction negotiated in 2003."

Based on this response, the Budget Analyst believes that the Airport will likely make another retroactive request for the Board of Supervisors to retroactively provide for a duty-free MAG suspension for calendar year 2004. Therefore, the Budget Analyst recommends that the proposed resolution be amended to specifically disallow any further retroactive requests of the Board of Supervisors for a MAG reduction or suspension after January 1, 2004 in order to prevent the Airport from taking such action prior to receiving Board of Supervisors approval.

8. In summary, the proposed resolution would retroactively reduce DFS's duty-free rent payable to the Airport from $23,490,000 to $12,092,975, (see Comment No. 1) a reduction of $11,397,025 or 48.5 percent in calendar year 2003. However, according to DFS's statements to the Airport, the DFS could pay a rent of 31 percent of gross monthly revenues which would equal $12,560,590 or $467,615 more than the $12,092,975 currently proposed (see Comment No. 4). The proposed lease Amendment would also establish a new rent schedule from January 1, 2004 to May 1, 2010, which would retain the MAG of $23,490,00 and increase the percentage of annual gross revenues.

The Budget Analyst noted in Comment No. 5 above that the Airport has also allowed DFS to suspend the duty-free MAG payments and pay the reduced rents, which are the subject of the proposed lease Amendment since January of 2003, without first obtaining approval of the Board of Supervisors. Furthermore, as noted in Comment No. 7 above, based on the Airport's data provided to the Budget Analyst, the Budget Analyst believes that the Airport will likely request that the Board of Supervisors again retroactively provide for a duty-free MAG suspension for calendar year 2004. Therefore, the Budget Analyst makes the following recommendations.

Recommendations:

1. In accordance with Comment No. 4, direct the Airport to revise the rent schedule for April 1, 2003 through December 31, 2003 in the proposed Amendment from 25 percent of gross revenues up to $3,000,000 to 31 percent of gross revenues up to $3,000,000, which would result in additional rent of approximately $467,615 to the Airport.

2. In accordance with Comment No. 7, amend the proposed resolution to specifically disallow any further retroactive requests for a MAG reduction or suspension after January 1, 2004 until the Board of Supervisors approval is first granted.

3. Approval of the proposed resolution, as amended, is a policy matter for the Board of Supervisors.

	Sq.Ft.		DBE
DFS Group, LLP		55,422	
Altitunes (Amy Nye) [Formerly Esprit]	2,918		Yes
California Wine Country Gourmet	1,583		
Cool Tees@sfo.fun (A) (temporarily closed)	350		
Cool Tees@sfo.fun (G)	300		
DFS Galleria (A)	8,850		
DFS Galleria (G)	13,046		
DFS Satellite (A)	1,670		
DFS Satellite (G)	1,455		
Pacific Outfitters (RDG) [Formerly Here to There]	970		Yes
Leather Report	1,746		
Mainspring Watches	500		
San Francisco Bay Traders (A)	1,464		
San Francisco Bay Traders (G)	1,762		
San Francisco Wine Gourmet	1,464		
SFO Treats (PGC Sublessee)	1,034		Yes
Soliton	1,267		
To Your Health (temporarily closed)	1,500		
Subleases:	13,543		
Pacific Gateway Concessions, LLC & LTD			Yes
Embardero Treats	*1,222*		
Pacific Gateway Gift & News (A)	*982*		
Pacific Gateway Gift & News (G)	*906*		
Pacific Gateway News (A) [Combining w/ SFO treats space]	*474*		
Pacific Gateway News (G)	*892*		
Pacific Gateway News (G)	*375*		
Kids City [Formerly US Sporting Style]	*1,027*		Yes
RDG Concessions			Yes
Pacific Outfitters	*709*		
SF Time	*1,768*		
Sunset Shades	*500*		
Sephora			
Sephora (North Shoulder, ITB)	*2,190*		
Sephora (South Shoulder, ITB)	*2,498*		

Shaded cells represent tenants of the duty-free shop

Source: Airport
11/19/03

DFS Group, LLP

Tenant No.:	11083
Index Code:	AIROPRIT
SubOjbect:	37512

		Gross DUTY FREE Sales	Rent Owed	Rent Paid			
	December-00	$2,810,341.86	$1,351,278.06	$1,351,278.06			
	January-01	$3,783,611.20	$1,904,073.75	$1,904,073.75			
	February-01	$3,891,352.45	$1,904,073.75	$1,904,073.75			
	March-01	$4,172,066.11	$1,904,073.75	$1,904,073.75			
	April-01	$3,700,463.28	$1,904,073.75	$1,904,073.75			
	May-01	$5,041,485.73	$1,904,073.75	$1,904,073.75			
	June-01	$4,674,567.40	$1,904,073.75	$1,904,073.75			
	July-01	$4,213,685.40	$1,904,073.75	$1,904,073.75			
	August-01	$5,368,585.79	$1,904,073.75	$1,904,073.75			
	September-01	$3,196,868.77	$935,114.44	$935,114.44			
	October-01	$2,451,617.09	$462,904.27	$462,904.27			
	November-01	$2,393,742.97	$448,435.74	$448,435.74			
	December-01	$2,895,037.89	$573,759.47	$573,759.47			
	January-02	$2,525,730.26	$481,432.57	$481,432.57			
	February-02	$2,688,934.08	$522,233.52	$522,233.52			
	March-02	$3,072,838.25	$618,209.56	$618,209.56			
	April-02	$2,879,032.35	$863,709.71	$863,709.71			
	May-02	$3,682,267.22	$1,104,680.17	$1,104,680.17			
	June-02	$3,426,668.46	$1,028,000.54	$1,028,000.54			
	July-02	$3,345,290.48	$1,003,587.14	$1,003,587.14			
	August-02	$3,837,268.56	$1,151,180.57	$1,151,180.57			
	September-02	$3,677,001.66	$1,103,100.50	$1,103,100.50			
	October-02	$3,441,349.12	$1,066,818.23	$0.00			
	November-02	$3,391,977.07	$1,051,512.89	$0.00			
	December-02	$3,230,144.41	$1,001,344.76	$0.00			
			Rent due under existing lease agreement	Rent Paid	Rent payable under proposed amendment	Rent payable if at 31 percent of gross revenues	
	January-03	$3,249,317.77	$1,957,500.01	$1,007,288.51	$1,007,288.51	$1,007,288.51	
	Jan. Bonus Pymt			$312,500.00	$312,500.00	$312,500.00	
	February-03	$2,843,444.65	$1,957,500.01	$881,467.84	$881,467.84	$881,467.84	
	March-03	$3,021,637.19	$1,957,500.01	$936,707.53	$936,707.53	$936,707.53	
	April-03	$2,236,853.13	$1,957,500.01	$559,213.29	$559,213.29	$693,424.47	
	May-03	$2,641,752.79	$1,957,500.01	$660,438.20	$660,438.20	$818,943.36	
	June-03	$2,914,979.61	$1,957,500.01	$728,744.90	$728,744.90	$903,643.68	
	July-03	$3,596,146.55	$1,957,500.01	$1,114,805.43	$1,114,805.43	$1,114,805.43	
	August-03	$3,909,456.71	$1,957,500.01	$1,211,931.58	$1,211,931.58	$1,211,931.58	
	September-03	$3,714,160.23	$1,957,500.01	$1,151,389.67	$1,151,389.67	[illegible]	
	October-03	$3,893,600.00	$1,957,500.01		$1,207,016.00	$1,207,016.00	
	November-03	*$3,694,967.00*	$1,957,500.01		*$1,145,439.77*	$1,145,439.77	
	December-03	*$3,793,652.00*	$1,957,500.01		*$1,176,032.12*	$1,176,032.12	
	Total for 2003		$23,490,000.12		$12,092,974.84	$12,560,589.97	###
				rent reduction	$11,397,025.28		

Bolded text is unauditted revenue
Italiclzed text indicates forecasted figures

Source: Airport, November 20, 2003

San Francisco International Airport

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October 8, 2003

Elaine Forbes
Budget Analyst's Office
City & County of San Francisco
City Hall, Room 263
San Francisco, CA 94102

Re: Amendment No. 3 to DFS Group, L.P.'s Post- Security Master Retail/Duty Free Lease No. 99-0035

Dear Elaine:

Although the DFS MAG was reinstated January 1, 2003, they have been unable to pay it and instead have been paying percentage rent. The duty Free MAG for calendar year January 1 through December 31, 2003 is $23.5 million.

DFS business at SFO is unlike any other tenant. It is both direct operator and a master tenant. Its lease covers 29 different facilities, yet 90% of the MAG is allocated to the duty free operations. The duty paid facilities are all subleased to DBE tenants. The duty free operations are completely tied to international passenger traffic, which has been severely and disproportionately effected by SARS and the Iraq war.

DFS sought and was given economic relief at Honolulu and Los Angeles International Airports. The presence of a well run duty free operations is a valued service to international passengers and is generally considered an important feature at major international airports.

In order to avoid the potential of empty duty free retail space during the rebid process, as well as the loss of business to DBE sublessees if DFS were to shut down due to their inability to pay their MAG, we have negotiated a 12 month interim program to continue the MAG suspension, but also require additional payments beyond the percentage rent if sales in each month increase by at least 10% over the previous year.

The DBE subleases offer many of the most basic necessities of the traveling public, such as newspapers, magazines, aspirins and band-aids. Disruption of those subleases would have an adverse impact on the traveling public.

Elaine Forbes
October 8, 2003
Page 2

For calendar year 2003, staff forecast that this proposed plan would result in rents to the Airport in the range of approximately $11.4 to $14.6 million. By comparison, in Honolulu the $60 million MAG was recently dropped to $40 million and could go as low as $34 million if sales there do not improve. In Los Angeles the DFS lease was also significantly restructed, eliminating the MAG of $37 million for the years 2003 until the end of the current lease in May 2005. The percentage rent there was set 23% in 2003, 27% in 2004, and a tiered rate commencing at 28%.

DFS first approached the Airport for MAG relief in January 2003; however, staff felt it important to verify that the passenger downturn adversely impacted DFS' sales. Additionally, staff waited for HNL and LAX to finish its relief package for DFS, as well as verifying the final impact of the Iraq War and SARS before finishing negotiations with DFS. They were just completed and approved by the Airport Commission last month.

Please contact me with any other questions on this amendment.

Sincerely,

David W. Pfeiffer
Associate Deputy Director
Revenue Development

San Francisco International Airport

October 30, 2003

P.O. Box 8097
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Mr. Harvey Rose
Office of the Budget Analyst
1390 Market Street, Suite 1025
San Francisco, CA 94102

Subject: Amendment No. 3 to the DFS Group, L.P. Post-Security Master Retail/Duty Free Concession in the New International Terminal Building Lease No. 99-0035 at San Francisco International Airport

Dear Mr. Rose:

The combined impact of the residual effects of September 11,2001 and the more immediate effects of the war in Iraq and the SARS outbreak will hold *duty free sales* at San Francisco International Airport to an estimated $38,900,00 based upon current trend. If the Board of Supervisors fails to grant relief from the stipulated $23,500,000 *duty free sales* minimum annual guarantee, the effective concession rent in 2003 would exceed 60% of sales. A duty free concession rent at this level would be unprecedented in the duty free industry and would represent what Duty Free Stores (DFS) has stated would be an untenable burden for them to handle, as it would be for any other duty free concessionaire. They have also sought and received relief at Los Angeles World Airports (LAX) and Honolulu International Airport (HNL) due to the same issues.

As noted in the earlier letter of October 8th, LAX and HNL, two Pacific Rim airports where DFS operates, provided extensive, multi-year rent relief to DFs. Those airports recognized that the international market has fundamentally changed and that extensive relief was warranted and required to keep Duty Free concession in DFS in operation.

In discussions with DFS they have stated that failing to provide appropriate relief from this unsustainable concession rent burden would have both immediate and long-term consequences for the City and County of San Francisco, San Francisco International Airport, the Airport's patrons and of course, DFS. According to DFS, failure to provide relief would at minimum, result in the following:

- DFS would be unable to continue to maintain the high level of customer service and product assortment that patrons of San Francisco International Airport, a major Asian gateway, both require and deserve. Store presentations and appearance would also suffer since investment in store inventory, infrastructure and facilities could not be maintained at their present high levels.

- DFS management and employees, many of whom have long-tenure given DFS's long service as the duty free concessionaire at San Francisco International Airport, would face immediate lay-offs, with little or no prospect of recall. DFS

Mr. Harvey Rose
October 30, 2003
Page 2

has its worldwide headquarters in San Francisco and employs over 300 people in its downtown offices and over 100 staff at SFO.

- DFS may be forced to resign from this concession, forcing the City and Airport to search for a new operator during a period when a Request for Proposal is likely to result in offers that fall below those that would be in place with DFS.

If approved by the Board of Supervisors, the difference that would be paid by DFS under this relief package between the MAG ($23,400,000) and the projected rent collected under the relief ($11,938,173) would be $11,461,827. This could be decreased if sales warrant additional lump sum payments of $312,500 for sales in November and December.

The world events that have fundamentally altered 2003 travel patterns at San Francisco International Airport require this relief if the foundation of DFS is to remain sound. DFS believes this relief is warranted, appropriate and necessary to assure that they can continue to provide the current high level of duty free facilities, product and services currently offered to Airport patrons. The relief package was carefully considered and approved by the Airport Commission and is substantially less far reaching than the relief given by LAX and HNL.

Very truly yours,

David W. Pfeiffer
Associate Deputy Director
Revenue Development

cc: John L. Martin
Leo Fermin

TO: Harvey Rose, Budget Analyst
FROM: Patrica Maitland, Airport
DATE: Wednesday, November 19, 2003

RE: Responses to Budget Analyst Questions

1. If DFS cannot pay the duty-free MAG in the current calendar year, why does the Airport believe DFS will be able to pay the duty-free MAG effective January 1, 2004?

In the event circumstances change in 2004, the Airport believes it is more fiscally responsible to contain the rent relief to the current Lease Year . For example, if there is an increase in passengers in the 2004 Lease Year, which could have a positive effect on duty free gross revenues, the Airport would not want to be committed to a rent reduction negotiated in 2003.

2. What is a reasonable maximum percent of gross revenues for a duty-free concession lease?

DFS has indicated that the maximum rent it could pay as a percentage of gross revenues is 31%.

3. The original lease shows a total of 52,000 square feet with 27 locations, and an amendment shows 57,353 in 29 locations, but your spreadsheet shows 55,422 in 29 locations. What happened?

The original lease Exhibit A lists 27 retail facilities for a total of 53,451 square feet plus two "Additional Facilities" comprised of the Unisex Apparel Store (Esprit, CN10) and the Apothecary Store (To Your Health, CS70) for 2918 square feet and 1648 square feet respectively, for a total of 29 locations and 58,017 square feet.

Exhibit A of the Lease was drafted approximately 2 years before the actual build out of the premises. The following changes that have occurred over the course of the lease term, account for 2360 sq.ft. of space. The 235 sq.ft. delta is the result of minor design and construction changes that occurred during actual build out and were not recorded in CAD drawings.

Bay Traders is shown on the lease as 2497 sq.ft., actual build out size was 1464 sq.ft. for a difference of 1033 sq. ft.
Mainspring is shown on the lease as 1267 sq.ft., actual build out size was 500 sq.ft. for a difference of 767 sq. ft.
AW60 & AW70 combined premises and show on the lease as 982 sq.ft. and 1034 sq.ft. for a total of 2016 sq.ft., actual build out size is 1456 sq.ft. for a difference of 560 sq.ft.

Item 3 - File 03-1816

Department: Port Commission (Port)

Item: Resolution approving a new lease between the San Francisco Port Commission and Boudin Properties, Inc., a California corporation, to operate the Boudin Restaurant and Bakery located at 160 Jefferson Street at Fisherman's Wharf, for a total maximum term of 42 years.

Location: 160 Jefferson Street

Purpose of Lease: Boudin Properties, Inc. (Boudin) currently has an existing lease with the Port for 19,892 square feet of Port property located at 160 Jefferson Street, which has (a) a Port-owned building consisting of 9,820 square feet to operate a restaurant and bakery, and (b) a 10,072 square foot parking lot, which accommodates parking spaces for 24 vehicles. Pursuant to a separate month-to-month lease, as discussed below, Boudin also leases from the Port a 2,241 square foot parking lot at Jefferson and Mason Streets, which accommodates parking spaces for 9 vehicles. The existing lease commenced on May 1, 1970 and terminates on April 30, 2036, for a term of 66 years, as discussed below. The Port has recommended a new 42-year lease with Boudin and that the Port's existing lease with Boudin, which has a remaining term of approximately 32 years and 5 months, be terminated. Under the proposed new lease, Boudin will demolish the existing Port-owned one-story 9,820 square foot building and construct a new two-story 24,993 square foot building, at no cost to the Port, to operate its restaurant and bakery. The proposed new two-story building will house (i) a "market hall", retail bakery, and exposition bakery[1] on the first floor, (ii) a full service restaurant, bar, and exhibition space on the second floor, and (iii) a stand-alone 40-foot four silo, which will be used for storing flour.

Lessor: Port of San Francisco

Lessee: Boudin Properties, Inc. (Boudin)

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[1] A market hall is a series of small shops, such as those in the Ferry Building. An exposition bakery is a bakery where the public is able to watch the baking process.

Square footage: Under the proposed new lease, Boudin will demolish the existing Port-owned building and construct a new building, at no cost to the Port. Under the proposed new lease, Boudin will lease 19,891 square feet of land on which Boudin will construct a new 24,993 square foot two-story building. The 24,993 square foot two-story building will include approximately 13,340 square feet of first floor space plus 11,653 square feet of second floor space. The 19,891 square feet of land, which is the subject of this lease, will consist of 13,340 square feet on which the two-story building will be located, plus 6,552 square feet of outdoor seating and loading space. As noted above, the existing lease provides parking spaces for 24 vehicles, and a separate month-to-month lease between the Port and Boudin provides parking for 9 vehicles, for total parking for 33 vehicles. The proposed new lease does not contain parking spaces, resulting in a reduction of parking spaces for 24 vehicles. According to Mr. Nic Dempsey of the Port, at Boudin's sole cost and expense, the Port will have the 2,241 square feet of land, which accommodates parking for 9 vehicles, become part of the existing Fisherman's Wharf Triangle Lot, located at Jefferson Street and Taylor Streets and operated by the Fisherman's Wharf Restaurant Association. According to Mr. Dempsey, the subject 2,241 square feet of land will be included in the existing month-to-month management agreement between the Port and the Fisherman's Wharf Restaurant Association to operate the Triangle Lot. Page 5 of the Attachment explains the agreement terms for the Triangle Lot.

Term of Lease: 42 years, from approximately January 1, 2004 through December 31, 2045. The proposed new lease term will commence upon the Board of Supervisors and the Mayor's approval of the subject resolution, and will consist of the "construction period term" and the "operational term". The "construction period term", during which time Boudin will demolish the existing one-story, 9,820 square foot building and construct a new two-story, 24,993 square foot building, will commence on the commencement date of the new lease and will end on the earlier date of (i) issuance of the Certificate of Completion by the Port, or (ii) December 31, 2005. The "operational term" will commence upon the completion of the construction period

term and will extend for 40 years. Therefore, if the construction period commences on January 1, 2004, and extends through December 31, 2005, and the operational term commences on January 1, 2006 and extends through December 31, 2045, the total lease term will be 42 years, commencing January 1, 2004 and terminating December 31, 2045. As noted above, the existing lease between the Port and Boudin does not expire until April 30, 2036. Therefore, if the proposed new lease expires on December 31, 2045, the proposed new lease will expire 9 years and 8 months after the expiration date of the existing lease on April 30, 2036.

The attached memorandum (Attachment), provided by Mr. Dempsey, contains a detailed justification as to why the existing lease, which still has a remaining term of 32 years and 5 months, should be replaced by the proposed new 42-year lease, which expires 9 years and 8 months subsequent to the expiration date of the existing lease.

Options to Extend: None

Description: The Port originally entered into a 66-year lease for the Port's land and a one-story Port-owned building at 160 Jefferson Street with the original lessee, Exposition Fish Grotto, Inc., commencing May 1, 1970 and terminating April 30, 2036, for approximately 14,122 square feet of land, which includes a 9,820 square foot building to operate a restaurant. The lease also provided for adjacent parking. The Port Commission approved the assignment of the existing lease with Exposition Fish Grotto, Inc. to the Alioto Fish Company, Ltd. (Alioto) in October of 1972. According to Ms. Noreen Ambrose of the City Attorney's Office, the assignment was not subject to Board of Supervisors approval. On February 27, 1974, the Port approved a lease amendment, which expanded the leased premises by 5,368 square feet to 19,490 square feet, and which was approved by the Board of Supervisors approval, according to Ms. Ambrose. On October 8, 2002, the Port Commission approved the assignment of the existing lease with Alioto to Boudin, which was not subject to Board of Supervisors approval, according to Ms. Ambrose. On November 1, 2002, the Port and Boudin entered into a Memorandum of Technical Corrections,

which adjusted the square footage by 402 square feet, from 19,490 square feet to 19,892 square feet, and which was not subject to Port Commission or Board of Supervisors approval, according to Ms. Ambrose.

On February 11, 2003, the Port Commission adopted a resolution, approving a Memorandum of Agreement with Boudin, permitting the closure of a portion of the leased premises to facilitate Boudin's plans to demolish the existing Port-owned building and to construct a new building to operate a bakery-restaurant facility. That Agreement was not subject to Board of Supervisors approval, according to Ms. Ambrose. On October 22, 2003, the Planning Department issued the final Mitigated Negative Declaration.

Rent Payable by Boudin to the Port under the Existing Lease:

Under the existing lease, Boudin is required to pay the Port the greater of the Minimum Annual Rent or percentage rent, as follows:

Minimum Annual Rent
Under the existing lease, the Minimum Annual Rent is adjusted by the Consumer Price Index (CPI) every five years. Mr. Dempsey reports that the current Minimum Annual Rent was adjusted to the current rent of $134,892 in 2000.

Percentage Rent
Under the existing lease, percentage rent is 6.5 percent of food and beverage sales and 8.5 percent of retail sales for the term of the lease, ending in April of 2036.

Rent Payable by Boudin to the Port under the Proposed Lease:

Under the proposed lease, Boudin is required to pay the Port the greater of the Minimum Annual Rent or percentage rent.

Minimum Annual Rent
Under the proposed lease, Boudin is required to pay the Port Minimum Annual Rent of $135,000 during the construction period term ($11,250 per month).

During years one through four of the operational term, which commences on the earlier date of the issuance of the Certificate of Completion or December 31, 2005, the Minimum Annual Rent is $270,000 ($22,500 per month).

During years five through eight of the operational term, the Minimum Annual Rent is $325,000 ($27,083.33 per month).

During years nine through 40 of the operational term, the Minimum Annual Rent is $500,000 ($41,666.66 per month).

Commencing in year 13 of the operational term and every five years thereafter, the Minimum Annual Rent will be adjusted to equal the greater of (i) 70 percent of the average annual total of the Minimum Annual Rent or percentage rent (whichever is greater) for the three prior lease years, or (ii) the previous monthly Minimum Rent adjusted by the Consumer Price Index (CPI).

Percentage Rent

There is no percentage rent during the construction period under the proposed lease.

During the operational term, under the proposed lease, percentage rent is calculated as follows:

- During years one through four of the operational term, percentage rent equals (i) 2.5 percent of all food, beverage, and retail sales, plus (ii) 2.5 percent "off-premises" bakery sales in excess of an annual breakpoint of $2,000,000[2].
- During years five through eight of the operational term, percentage rent equals (i) 3.25 percent of all food, beverage, and retail sales, plus (ii) 3.25 percent of all "off-premises" bakery sales in excess of an annual breakpoint of $2,000,000.
- During years nine through 40 of the operational term, percentage rent equals (i) 6.5 percent of all food and beverage sales, (ii) 6.5 percent of all other bakery sales

[2] "Off-premises" bakery sales include sales of bakery items prepared on the premises and sold to customers off the premises. Retail sales includes the sales of non-edible goods on the premises and services sold on the premises, such as factory tours, food tastings, and cooking lessons.

in excess of an annual breakpoint of $2,000,000, plus (iii) 8.5 percent of retail sales.

Amount of Projected Rental Revenues in the Proposed Lease Compared to the Existing Lease:

As stated on pages 2 and 3 of the Attachment, Ms. Carol Anderson of the Port states that, "Future revenues under the proposed lease through 2036 are conservatively projected, based on 50% of Boudin's sales and revenue projections, to total $17.1 million. This compares with projections based on existing lease provisions and use and the highest rent level to the Port ever achieved (1999) at this location, indicating total projected revenue of $13.6 million. Therefore, the proposed lease is conservatively projected to produce over $3.5 million in additional rent to the Port through 2036 than would be reasonably achievable under the terms of the existing lease. This equates to a 26% increase in income."

The Budget Analyst calculates that under the terms of the existing lease, the Port would receive $8,194,909 in Minimum Annual Rent for the period from January 1, 2004 through April 30, 2036 and under the terms of the proposed new lease, the Port will receive $12,907,376 in Minimum Annual Rent for the period from January 1, 2004 through April 30, 2036. Therefore, the Budget Analyst has projected that the Port would be paid $4,712,467, or 57.5 percent, more in Minimum Annual Rent from Boudin under the proposed lease than the $8,194,909 payable by Boudin to the Port under the existing lease.

Comments:

1. Boudin projects that Boudin's costs to construct a new two-story building at 160 Jefferson Street will be approximately $15,000,000, at no cost to the Port. Under the terms of the proposed lease, Boudin will own title to the two-story building during the 40-year operational term of the proposed lease. The proposed lease provides that the title will revert to the Port upon expiration of the proposed lease on December 31, 2045, or upon earlier termination of the proposed lease.

2. In addition to the proposed subject lease between the Port and Boudin, the Port and Boudin have entered into (i) a Sidewalk Encroachment Permit and Revocable License for use of adjacent sidewalk areas and (ii) a separate month-to-month lease for an adjacent 2,241 square foot parking lot with 9 parking spaces which is not subject to Board of Supervisors approval according to Ms. Ambrose. As previously noted, although the existing lease provides parking spaces for 24 vehicles, the proposed new lease does not provide parking, resulting in the reduction of parking spaces for 24 vehicles. However, the 9 parking spaces, which are currently provided under a separate month-to-month lease between the Port and Boudin for the 2,241 square foot parking lot, will be incorporated into the adjacent Fisherman's Wharf Triangle Lot upon completion of construction, resulting in parking for 9 vehicles. The Planning Department's October 28, 2003 memorandum, approving the reduction in parking spaces under Planning Code Section 161(f), states that, "It is estimated that when incorporated into the Triangle Lot the nine space lot could accommodate between 14 and 17 vehicles with attendant parking".

3. Under the terms of the proposed lease, if Boudin fails to complete the construction project by December 31, 2005, Boudin will be required to pay the Port a Minimum Annual Rent of $500,000 instead of a Minimum Annual Rent of $270,000, commencing January 1, 2006, and continuing until the Port has issued a Certificate of Completion.

4. Under the proposed lease, Boudin may assign or sublet the subject lease with the written consent of the Port, and without subsequent approval by the Board of Supervisors. The proposed lease provides that the Port's consent for the assignment or sublet "shall not be unreasonably withheld or delayed after Completion (of the construction) but may be withheld by Port in its sole and absolute discretion before Completion".

5. Under the proposed lease, if Boudin refinances the property, resulting in net proceeds, or sells its rights and interest in the leasehold, the Port will be entitled to 10 percent of net proceeds, defined as (a) proceeds from

refinancing less refinancing costs, or (b) the gross sales price, less transaction costs, less Boudin's certified construction costs for the new building and related improvements. The Port is not able to estimate it's potential revenue from such refinancing or sale at this time.

6. In summary, the proposed new lease would result in higher revenues to the Port, both in terms of percentage rent and Minimum Annual Rent. The Port would receive an estimated $17,371,610 in total percentage rent revenues under the proposed new lease for the period from January 1, 2004 through April 30, 2036, which is $3,780,449, or 27.8 percent more, than estimated total percentage rents of $13,591,161 under the existing lease for the period from January 1, 2004, through April 30, 2036. The Port would receive an estimated $12,907,376 in Minimum Annual Rent under the proposed new lease for the period from January 1, 2004 through April 30, 2036, which is $4,712,467, or 57.5 percent, more than an estimated $8,194,909 in Minimum Annual Rent under the existing lease for the period from January 1, 2004 through April 30, 2036.

Recommendation: Approve the proposed resolution.

PORT OF SAN FRANCISCO

Memorandum

To: Severin Campbell, Budget Analyst Office
Board of Supervisors of the City & County of San Francisco

cc: Kenneth Winters, Deputy Director, Real Estate
Ken Bruce, Budget Analyst Office

From: Carol S. Anderson, Assistant Deputy Director, Real Estate
Nicolas J. Dempsey, Asset Manager C S Anderson

Date: 11/26/03

Re: **Proposed Lease No. L-13550 with Boudin Properties, Inc., 160 Jefferson Street, San Francisco, CA (SWL 301)**

History and Background:

The intersection at Jefferson and Taylor Streets is arguably the heart of and gateway to Fisherman's Wharf. 160 Jefferson Street, the site of the subject lease, is at the northeast corner of Jefferson and Taylor Streets.

Boudin acquired the current lease from Alioto Fish Company in October 2002. Boudin came to the Port in early 2003 with a re-development proposal designed to be a win-win for Boudin, the Port, and Fisherman's Wharf. The proposed development would provide for the much needed revitalization of this corner at Fisherman's Wharf. It would also act to greatly improve the quality of the visitor's experience by providing that the functionally obsolete and visually unattractive Expo Family Restaurant building be demolished. In its place, Boudin's proposed that a first-class flagship structure be built to house a Boudin exposition bakery, complete with a 40' flour silo and museum/exhibition space, a retail bakery, a retail "market hall", and a full-service restaurant and bar. This flagship development represents to Boudin a "coming home" to Fisherman's Wharf of its pioneering "sour dough bread" which has become synonymous with San Francisco and the Wharf.

The Port realized that such a proposal had the potential to be mutually and significantly beneficial. Boudin had demonstrated success with this business model in its comparable location and attraction adjacent to Disneyland in Anaheim, California, at California Adventure. Though the Boudin business model at Fisherman's Wharf appeared aggressive, even when discounted by 50%, the project proforma was deemed to be readily achievable. Therefore, Boudin and the Port negotiated a re-development agreement embodied in the proposed lease.

Proposed Lease Transaction:

The lease under consideration provides many benefits to the Port. Revenue enhancement is provided through a guarantee of minimum rent which is greater than the total rent achievable under the current lease. It also provides the opportunity to participate in enhanced percentage rent through the success of a business which has already demonstrated its success in other locations. In addition, the Port, Boudin's, the Fisherman's Wharf community and the City benefit from the addition of a new, $15 million, 24,993 s.f. state-of-the-art mixed-use flagship attraction and structure which will act as a catalyst to revitalize the area and heighten the attractiveness of Fisherman's Wharf to tourists and local residents.

In comparison, the current lease scenario provides limited return to both the Port and Boudin. Under the current lease, the relatively small size of the building on the premises, 9,820 s.f., and the functional obsolescence resulting from the buildings' division into two distinct uses, have acted to limit this location's ability to generate food and beverage sales. The year 1999 demonstrated the highest food and beverage and retail sales at this location, with gross sales totaling $3,804,265, providing $247,396 in total rent to the Port. However, since 1999, sales at this obsolete facility have decreased precipitously--over 20% since that time. In 2001, food and beverage and retail sales fell to $3,140,424 generating only $204,226 in total food and beverage related rent.

Economic Benefit:

Under the proposed lease, minimum annual rent, following the construction and stabilization period, increases to $270,000 for years 1-4, $325,000 for years 5-8, and $500,000 per year thereafter as adjusted every five years to the greater of a CPI-based formula adjustment or 70% of the previous three years average of minimum and percentage rents. These minimum rent guarantees assure the Port of revenue enhancement beyond that which the Port might anticipate under the existing lease and protects the Port from revenue losses attributable to sales decreases resulting from outside influences.

Future revenues under the proposed lease through 2036 are conservatively projected, *based on 50% of Boudin's sales and revenue projections*, to total $17.1 million. This compares with projections based on existing lease provisions and use

and the highest rent level to the Port ever achieved (1999) at this location, indicating total projected revenue of $13.6 million. Therefore, the proposed lease is conservatively projected to produce over $3.5 million in additional rent to the Port through 2036 than would be reasonably achievable under the terms of the existing lease. This equates to a 26% increase in income. Should Boudin achieve sales at 70% of their projections, the net increase in projected Port revenue is estimated to increase to $10.7 million, a 78% increase in income.

To achieve the minimum rent levels proposed in the new lease, sales would need to increase to unrealistic levels, given the obsolete state of the existing leasehold improvements and use. To provide total rent to the Port of $270,000 would require that total sales be 32% higher than those achieved in 2001. To provide total rent to the Port of $325,000 would require a 60% increase over 2001 levels and a 30% increase over the bellwether 1999 sales levels.

Lease Comparison:

Improvements:

Proposed Lease: Boudin will construct a new, two-story, 24,993 s.f. multi-use building with premium finishes and design, housing a demonstration bakery, museum/exhibition space, market hall, and full service restaurant and bar. Boudin estimates that its total investment in the new building, fixtures and equipment, will be in excess of $15 million.

Existing Lease: Existing, 9,820 s.f. functionally obsolete and visually unattractive building partially utilized as bakery, and partially utilized as retail or restaurant.

Benefit: Expansion of improvements increases revenue opportunity.

Premises:

Proposed Lease: Premises will consist of 19,891 s.f. of land, rectangular in shape, to be re-configured to eliminate the existing "saw tooth" property line on the north side of the property where it is contiguous to the Triangle Parking Lot leased to the Fisherman's Wharf Restaurant Association.

Existing Lease: Premises totals 19,891 s.f. of land, mostly rectangular in shape, with a "saw tooth" property line on the north side of the property.

Benefits: Efficient space footprint allows Port to maximize new improvements and maximize parking on the adjacent Triangle Parking Lot. Movement of building to the east side of premises opens up Taylor/Jefferson view corridor to Fisherman's Wharf.

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Term:

Proposed Lease: 40 years, plus a 2 year construction period. Expiring December 31, 2045. An extension of approximately 9 years and 8 months over the original lease term provides Boudin the lease term necessary to secure commercially reasonable long-term financing for the project.

Existing Lease: 66 Years, expiring April 30, 2036.

Benefit: The relatively modest term extension provides the opportunity for maximum economic benefit to the Port and otherwise unachievable redevelopment of the property plus economic consideration to the Port of over $33 million based on Boudin's projections.

Annual Minimum Rent:

Proposed Lease: 2 Year Stabilization Period: $135,000; Years 1-4: $270,000; Years 5-8: $325,000, Years 9-12: 500,000; Year 13 on: adjusted every five years to the greater of a CPI-based formula adjustment or 70% of the previous three years average of minimum and percentage rents.

The proposed lease both secures guaranteed rent increases and protects the Port against revenue losses attributable to a downturn in sales due to unforeseen outside forces.

Existing Lease: Minimum Rent: $134,892 per year. The minimum rent will next be adjusted in 2005 and thereafter every 5 years per CPI-based formula adjustment.

Benefit: Proposed minimum rent levels secures returns to the Port at levels not achievable by current lease at rents including both minimum and percentage rent. The minimum rent structure more than triples existing minimum rent guarantees. Minimum rent during each of the first four years of the lease term will more than double the existing minimum rent ($270,000 vs. $135,000). The annual minimum rent increases to $325,000 for each of the next four years (2 1/2 times the existing annual minimum) and to $500,000 each year beginning in Year 9 (nearly 4 times the existing minimum rent).

Annual Percentage Rent:

Proposed Lease:

Rent Stabilization Period: In return for the increase in minimum rent and the guarantee of future rent increases, Boudin and the Port agreed to provide for an eight-year "stabilization period" to permit Boudin the opportunity to recoup

a portion of its significant investment by means of a percentage rent reduction.

Years 1-4: 2.5% of food, beverage, and retail sales;

Years 5-8: 3.25% of food, beverage, and retail sales;

Years 9 on: 6.5% of food and beverage sales and

8.5% of retail sales

The stabilization period is not triggered or tied to Boudin's investment and is not designed to achieve a set dollar amount for recoup to Boudin. In fact, the greater the sales level, the greater the amount to be recouped. However it should be noted that the greater the sales level, the greater is the potential to the Port to achieve more than minimum rent during that time period. The greater amount to be recouped by Boudin based on increased sales, results in greater revenues to the Port.

Existing Lease: Minimum rent versus percentage rents of 6.5% of food and beverage sales, 8.5% of all other sales and 30% of parking revenues, net of City taxes.

Benefit: The benefit to the Port with this development provides for enhanced percentage rent, even at the lower percentage factors in lease Years 1-8, while permitting the redevelopment of the property on commercially reasonable financial terms. Based on 50% of Boudin's projections, after Year 8, total annual rent increases to $545,540, a 75% increase over the $312,890 that may have been achieved under the existing lease. Were Boudin to achieve sales based on 70% of their projections, annual rent to the Port after Year 8 would be $763,755, a 144% increase over the same $312,890.

Parking:

Proposed Lease: The re-configured premises do not provide for parking. However, the reconfiguration of the Premises which are adjacent to the Triangle Parking Lot, will result in an increase in available parking spaces in the Triangle Parking Lot through the ability to double stack cars on both sides of the lot not now possible. In addition, the nine-space lot adjacent to the Boudin premises (currently under a month-to-month license to Boudin) will be incorporated into the Triangle Parking Lot, resulting in a total increase in the Triangle Parking Lot of approximately 23 spaces. The Triangle Parking Lot lease provides for the Port's retention of all parking revenues net of taxes and operational expenses. As a result, the addition of approximately 23 new spaces in the Triangle Parking Lot will result in significant revenue

enhancement to the Port, in spite of the net loss of seven spaces. The Planning Department approved a parking exemption under Planning Code Section 161(f) on October 22, 2003.

Existing Lease: The Port receives 30% of net parking revenues from the 33 spaces affected by two Boudin leases--one incorporated by the current premises and one under a month-to-month license adjacent to the Premises.

Benefit: The incorporation of new space into the Triangle Parking lot at Boudin's sole cost and expense, will increase the efficiency of the lot operation and result in enhanced parking revenues to the Port, despite the net loss of seven spaces.

City Benefits:

Current City Lease Requirements: In addition to the economic benefits to the Port, the new lease provides for incorporation of all of the current City requirements not addressed in the existing lease. These City requirements include provisions related to Non-Discrimination, McBride Principles–Northern Ireland, Tropical Hardwood and Virgin Redwood Ban, Tobacco Products Advertising Ban, Pesticide Prohibition, First Source Hiring, Health Benefits Accountability, Green Building Ordinance, Limitation on Contributions, and Card Check Ordinance.

Possessory Interest Tax: Possessory Interest Tax revenues will be enhanced through the new rental rate and the $15 million of new improvements.

Sales Tax: Sales Taxes will increase as a result in increased sales projected by Boudin. It is projected that these increased sales could result in a threefold increase in sales taxes--Even if Boudin were to only reach levels equal to 70% of its projections, sales taxes would more than double.

Jobs: Following completion of the improvements, Boudin estimates that it will employ approximately 200 permanent and part time employees, an increase of 175 jobs as a result of this development. Currently Boudin employs 25 employees at this location. This will result in a significant increase in employment tax revenues to the City.

Conclusion and Recommendation:

The Port recommends unconditionally that the San Francisco Board of Supervisors approve this lease as proposed. Boudin's, Fisherman's Wharf, and the City of San Francisco will benefit greatly in a myriad of ways over the long-term as a result of the proposed re-development of the premises located at the 100% location of Jefferson and Taylor Streets. Demolition of a functionally obsolete building and the

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development of a new, attractive, well-designed and well-built structure with greater use and retail flexibility, will not only visually improve the attractiveness of the heart of Fisherman's Wharf, but will begin what the Port hopes to be a new era for Fisherman's Wharf. The Port and BCDC are working together, along with the Community, on a Special Area Plan to revitalize Fisherman's Wharf, provide more open space, and greatly improve the visitor's experience and desire to return to Fisherman's Wharf. Boudin's has the proven success formula to develop this location as a flagship destination attraction, as evidenced by Boudin's successful operation at its comparable southern California attraction at California Adventure in Anaheim. Boudin's significant investment and confidence in Fisherman's Wharf will benefit the entirety of Fisherman's Wharf and its community.

Item 4 - File 03-1796

This is a hearing regarding the findings and recommendations included in the Budget Analyst's Management Audit of the San Francisco International Airport's Airfield Development Bureau Runway Reconfiguration Project. The management audit report was transmitted to the Board of Supervisors on May 21, 2003.

The Budget Analyst will be prepared to present the report to the Finance and Audits Committee at its meeting of December 3, 2003. A copy of the executive summary of the management audit report has been submitted to the Board file. The full management audit report is available on the City's website, at the Budget Analyst Reports page [http://ci.sf.ca.us/site/budanalyst_page.asp?id=17675].

Item 5 - File 03-1717

Department: Fire Department

Item: Hearing to consider the release of $3,903,139 of funds reserved in the Fire Department's FY 2003-2004 budget, for the Division of Fire and Medical Training.

Amount: $3,903,139

Source of Funds: Reserved funds in the Fire Department's FY 2003-2004 budget, as finally approved by the Board of Supervisors.

Description: During its consideration of the Fire Department's budget for FY 2003-2004, the Board of Supervisors reserved $3,903,139, or 75 percent, of the Fire Department's Division of Fire and Medical Training[1] budget of $5,204,185.

The funds were reserved for the purpose of having the Fire Department submit to the Board of Supervisors a detailed restructuring plan for the Division of Fire and Medical Training in order to enable the Board of Supervisors to monitor the Fire Department's progress towards an integrated Division of Fire and Medical Training in accordance with Recommendations 1.4.1 to 1.4.3 contained in the Budget Analyst's January, 2002 Management Audit Report of the Fire Department (see Comment No. 2). These recommendations were approved by the Board of Supervisors Rules and Audits Committee during its hearings on the Management Audit Report, noting that implementation of these recommendations would result in estimated personnel savings of $159,374 annually in 2003 dollars.

Comments: Management Audit Recommendations

1. As part of its comprehensive management audit of the Fire Department, the Budget Analyst's Office reviewed the Fire Department's training and education functions. The Budget Analyst's Office concluded in Section 1.4 of the Management Audit Report that:

[1] While the Budget Analyst's January, 2002 Management Audit Report of the Fire Department recommended that the integration of the Fire Department's fire suppression and emergency medical services training and education functions should result in a new "Division of *Fire and Medical* Training" to signify the new integration, Chief Joanne Hayes-White, the Fire Department's Director of Training, advises that the Fire Department has made the determination to retain the existing "Division of Training" name and does not intend to change that name.

- Fire Department training and education functions were spread across the Division of Training, the EMS Academy Section of the EMS Division, and the EMS In-service Training Section of the EMS Division.
- Structural and management fragmentation hindered integration of the Fire Department's fire suppression and emergency medical services responsibilities, complicated management accountability, created the potential for unevenly applied training and education quality standards, and increased costs.

2. As a result of these findings, the Budget Analyst's Management Audit contained the following recommendations:

- Recommendation 1.4.1: Transfer the EMS Academy Section and the EMS In-service Training Section to a renamed Division of Fire and Medical Training during FY 2002-2003.
- Recommendation 1.4.2: Recruit widely for the new Director of Fire and Medical Training position, including advertising for a candidate with both fire suppression and emergency medical services training experience.
- Recommendation 1.4.3: Restructure the Division of Fire and Medical Training during FY 2002-2003 to integrate training and education functions for fire suppression and emergency medical services, and to reduce the number of staff reporting directly to the new Director of Fire and Medical Training position by FY 2003-2004.

3. The Budget Analyst's Management Audit Report stated that a reduction in the number of personnel reporting directly to the new Director of Fire and Medical Training should result in the elimination of five positions and the creation of four positions, as follows:

- Elimination of two Classification H-39 Fire Captain positions responsible for the H-3 Academy and firefighter recruit training, and elimination of one Classification H-43 EMS Academy Section Chief position. These three positions to be eliminated would be replaced by two positions: (a) one Manager, Cross-

Training (who could be either Classification H-39 or Classification H-43), and (b) one Manager, Recruit and EMT Training (who could be either Classification H-39 or Classification H-43).

- Elimination of one Classification H-39 Fire Captain position responsible for in-service training, and elimination of one Classification H-43 EMS In-service Training Section Chief position. These two positions to be eliminated would be replaced by one position: the Manager, In-service Training (who could be either Classification H-39 or Classification H-43).[2]
- The teaching and education services currently provided by the EMS Academy Section Chief and the EMS In-service Training Section Chief should be provided by one new Classification H-33 Rescue Captain position.

As noted above, the estimated personnel cost savings from eliminating five existing positions and creating four new positions would be $159,374 annually.

Attachment I comprises organization charts included in the Budget Analyst's Management Audit Report which compared the organization during the audit of the Fire Department's training functions, under two separate divisions, with the recommended restructuring of the Fire Department's training functions under a single integrated Division of Fire and Medical Training.

4. By reducing the number of management positions which currently have overlapping areas of responsibility, and creating new management positions which integrate equivalent emergency medical and fire suppression training and education functions, the Budget Analyst's Management Audit determined that this would result in a more streamlined Division of Fire and Medical Training which would:

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[2] To meet Emergency Medical Services Agency (EMSA) requirements, the successful applicants for the three new Division of Fire and Medical Training management positions (the Manager, Cross Training; the Manager, Recruit and EMT Training; and the Manager, In-service Training) would need to hold a current paramedic, nursing, or medical license. If there are no appropriately qualified cross-trained staff within the Fire Department to successfully fill these three new positions, the Management Audit recommended that the Fire Department advertise for appropriately qualified outside applicants.

- Adopt a more integrated and strategic approach to training and education.
- Develop clearer management accountabilities.
- Apply consistent training quality standards.
- Result in estimated savings of $159,374 annually in personnel costs.

Fire Department's Restructuring to Date

5. Attachment II is a copy of the Fire Department's October 24, 2003 memorandum to the Clerk of the Board of Supervisors requesting release of the subject reserved funds of $3,903,139. In Attachment II, the Fire Chief reports that the Fire Department has undertaken the following activities to consolidate emergency medical and fire suppression training:

- The Fire Department's three training facilities have been consolidated into two training facilities, resulting in a monthly rental savings of approximately $25,000 ($300,000 annually), as reflected in the Fire Department's FY 2003-2004 budget.
- The integration of the Fire Department's training and education functions has resulted in the permanent reduction of six positions, resulting in an estimated annual saving of $550,000.

6. However, based on the information provided in Attachment II, the Budget Analyst notes that the Fire Department has not fully implemented the Budget Analyst's Management Audit Recommendations 1.4.1 to 1.4.3, as previously approved by the Rules and Audits Committee, in that:

- There is no detailed restructuring plan for the Fire Department's training and education functions.
- None of the integrated Division of Fire and Medical Training managers, including the Director of Training, are cross-trained in both fire suppression and emergency medical services, and there was no external advertising of the positions.
- The integrated Division of Fire and Medical Training organizational structure retains separate Managers

for fire suppression and emergency medical services in-service training despite the similarity of their job functions, contrary to the Budget Analyst's recommended organization chart contained on page 2 of Attachment I which integrates the two positions into a single Manager, In-Service Training position.

Each of these issues is discussed in more detail below.

Restructuring Plan

7. Chief Joanne Hayes-White, the Fire Department's Director of Training, advises that other than the Fire Chief's October 24, 2003 memorandum to the Clerk of the Board of Supervisors requesting the release of the subject reserves, which details the progress made by the Fire Department in integrating its training and education functions (Attachment II), the Fire Department has not developed a separate restructuring plan.

Lack of Cross-trained Division of Fire and Medical Training Managers

8. Despite having been responsible for providing emergency medical services since July 1, 1997, the Fire Department lacks a pool of appropriately cross-trained Classification H-40 Battalion Chiefs, H-39 Fire Captains (Division of Training), Classification H-30 Fire Captains, Classification H-43 EMS Section Chiefs, and Classification H-33 EMS Captains in terms of both (a) the present incumbents of those classifications, and (b) the staff who can act in those classifications or could promote to those classifications once the necessary Civil Service Commission certification rule has been adopted. Since July 1, 1997, the Fire Department has had six years in which to ensure that its current and future training and education providers are appropriately cross-trained, but the Fire Department has failed to do so. The Budget Analyst considers that cross-training of current and future Fire Department training and education providers, regardless of their classification, would provide role models to encourage more Fire Department staff to cross-train.

9. In Attachment II, the Fire Chief reports that, prior to the end of FY 2003-2004, the Fire Department intends to cross-train all Classification H-33 EMS Captains who have not previously been cross-trained. The Budget Analyst requested an explanation of why such cross-training had not occurred during the first half of FY 2003-2004 given the window of opportunity provided by the fact that no new recruit classes are scheduled for FY 2003-2004. Chief Hayes-White advises that:

- Division of Fire and Medical Training staff have been "continually" monitoring, evaluating, and testing the 48 members of the most recent probationary class. Chief Hayes-White advises that probation for this class ends on February 24, 2004.
- Division of Fire and Medical Training staff have been testing nearly 100 Classification H-3 Fire Fighter Paramedics on their fire suppression skills in the field. Chief Hayes-White advises that although Classification H-3 Fire Fighter Paramedics have received their formal fire suppression training, not all have obtained the necessary field experience on fire engines and fire trucks. By February 29, 2004, the majority of Classification H-3 Fire Fighter Paramedics will have completed their fire engine field time, according to Chief Hayes-White, but fire truck field time will take longer. Testing and evaluation of each Classification H-3 Fire Fighter Paramedic's fire suppression skills in the field will occur after completion of their fire engine and fire truck field assignment.
- EMS In-service Training staff have focused on relocating from the Presidio to the Treasure Island Training Facility by October 1, 2003.
- During November of 2003, the Division of Fire and Medical Training intends to cross-train six to eight of its Emergency Medical Technician (EMT) staff members as EMS skills instructors so that they can conduct cardiopulmonary resuscitation and basic life support courses. This should reduce the need to hire EMS skills instructors on overtime.

- There is typically higher usage of vacation leave by 40-hour week employees, who include Classification H-33 EMS Captains, during the November and December holiday season, therefore cross-training during this period would result in increased overtime usage. Chief Hayes-White advises that initial orientation for cross-training should commence in December of 2003, with the cross-training continuing in March of 2004.

Appointment of a Cross-trained Director of Training

10. On February 21, 2003, the Fire Chief issued a General Order to Fire Department staff advertising for the Director of Training position, requiring the minimum qualifications of (a) fire suppression and EMS (paramedic level) background and experience, and (b) California State Fire Marshall Instructor 1A and 1B. Interested Job Classification H-30 Fire Captains and above were given three weeks in which to submit their applications. However, on May 20, 2003, four days after the Budget Analyst requested detailed information on the Division of Training restructuring process, the Fire Chief issued an updated General Order to Fire Department staff re-advertising the Director of Training position. In this updated General Order, the minimum qualifications were listed as "preferred, not required," no minimum job classification status was specified, and new applicants were given only three days in which to submit their applications (previous applicants did not need to re-apply). Despite the Rules and Audits Committee approval of the Budget Analyst's Recommendation 1.4.2 which stated "Recruit widely for the new Director of Fire and Medical Training position, including advertising for a candidate with both fire suppression and emergency medical services training experience," the Fire Department did not advertise the position externally.

11. The 15 internal applicants were interviewed on June 10 and 11, 2003. However, Chief Hayes-White advises that the Director of Training job interview process "has been placed on hold" by the Fire Chief on the grounds that it would be infeasible to appoint a new Director of Training during the current integration of fire suppression and EMS training and education staff. The Budget Analyst notes that, as a result of this decision, the

integration of the Division of Fire and Medical Training is being managed by a Director of Training who has no paramedic-level medical training or experience.

12. As the incumbent Director of Training, Chief Hayes-White intends to commence the Paramedic Certificate Program at the Community College of San Francisco in March of 2004 in order to be cross-trained. This is in spite of the Fire Department's position that there is no legal mandate requiring paramedic certification for the Director of Training. Chief Hayes-White advises that her paramedic cross-training will consist of six months of class work, followed by six to nine months of field and client evaluations, which means that her paramedic cross-training should be concluded between March and June of 2005. Therefore, the Fire Department does not intend to have a cross-trained Director of Training, in compliance with Budget Analyst's Management Audit Recommendation 1.4.2, until March of 2005 at the earliest.

<u>Appointment of Cross-trained Division of Fire and Medical Training Managers</u>

13. The incumbents of the Managers of In-Service Suppression Training, In-Service Medical Training, and the Recruit Academy are all internal appointments, none of whom are cross-trained. Chief Hayes-White advises that they were appointed through an internal competitive hiring process. There was no external advertising because "An external search would not be fiscally responsible," according to Chief Hayes-White who advises that:

> Externally advertising for [Division of Fire and Medical Training] Managers would require the creation of a new Civil Service rank or classification. Additionally, it would most assuredly trigger the "Meet and Confer" process with Local 798 since it would potentially involve a loss in promotional opportunities and could potentially have an adverse impact on the wages and working conditions of its members. It would be labor intensive and time consuming to train an external candidate to perform at

a level that is typically gained only after participation in a promotional process and gaining site specific knowledge and experience in and with the [San Francisco Fire Department].

14. While hiring internal applicants for the Fire Department's training and education management positions ensures that the managers have San Francisco Fire Department-specific and San Francisco site-specific knowledge, these attributes are not sufficient arguments against advertising outside of the San Francisco Fire Department for qualified cross-trained applicants and hiring them if they are more highly qualified, just as the Fire Chief himself was recruited from outside of San Francisco. The Budget Analyst notes that:

(a) The meet and confer process does not reduce Fire Department management's right to hire external applicants or to restructure the organization. As stated in the Budget Analyst's report to the January 15, 2003 meeting of the Finance Committee (File 02-1966), "When recommending approval of Management Audit Recommendations 1.4.1 to 1.4.3, the Rules and Audits Committee was fully aware of the Fire Department's need to meet and confer with the Firefighters Union over the impacts of the recommended restructuring. The Rules and Audits Committee specifically directed the Fire Department to do everything necessary with respect to its meet and confer obligations in order to implement Management Audit Recommendations 1.4.1 to 1.4.3."

(b) All non-management positions in the new Division of Fire and Medical Training continue to be filled by staff who have promoted up through the ranks of the San Francisco Fire Department.

(c) All training and education managers should be qualified to meet the Federal and State training requirements for emergency medical and fire suppression services which govern the San Francisco Fire Department's policies and procedures.

15. Chief Hayes-White advises that the current Manager, Recruit Academy is due to retire on January 30, 2004. This incumbent is not cross-trained despite the job

description stating that the minimum qualifications include both paramedic licensure and firefighter certification. Chief Hayes-White reports that the Fire Department intends to advertise the position as requiring a cross-trained appointment. Chief Hayes-White further reports that a final decision has not yet been made as to whether the replacement position will be advertised on both an internal and external basis.

<u>In-service Training Functions</u>

16. As noted above, the Fire Department has retained separate manager positions for in-service suppression training and in-service EMS training, as shown on page 4 of Attachment II. However, the Budget Analyst's Recommendation 1.4.2, as approved by the Rules and Audits Committee, recommended an organizational structure (as shown on Page 2 of Attachment I) that integrated these two positions into a single Manager, In-Service Training position.

17. The Budget Analyst has reviewed the job descriptions for these two positions and has concluded that these two job descriptions outline job functions which overlap in all respects except for:

- The focus of the duties: fire suppression training or medical training.
- Different minimum qualifications for fire suppression and emergency medical services. These minimum qualification could be encompassed by one cross-trained and experienced fire fighter paramedic.
- Recommended experience for the Manager, In-Service Suppression Training in more than one of the Fire Department's Battalions, engines, trucks, and specialized apparatus whereas the Manager, In-Service Medical Training has no equivalent recommended experience requirement.

18. The proposed reduction of one training and education manager is an efficiency made possible by reducing overlapping areas of responsibility. Under Management Audit Report Recommendation 1.4.2, the Budget Analyst recommended an organizational structure (as shown on

Page 2 of Attachment I) which included the creation of one new Classification H-33 Rescue Captain position to provide the teaching and education services currently provided by the EMS Academy Section Chief and the EMS In-service Training Section Chief.

<u>Current Expenditures</u>

19. According to figures provided by Mr. Brent Lewis of the Controller's Office, based on the pay period ending October 24, 2003, which represents 32.1 percent of FY 2003-2004, the Fire Department has a projected FY 2003-2004 General Fund budget deficit in the amount of $4,736,732 for salaries and mandatory fringe benefits. This projection assumes that the reserved salary and mandatory fringe benefit funds in the amount of $2,613,314 (the salary and mandatory fringe benefit portion of the subject reserved funds of $3,903,139) would be released by the Finance and Audits Committee for expenditure.

Summary of Issues: As noted above, the Budget Analyst has identified the following issues:

- There is no detailed restructuring plan for the Fire Department's training and education functions.
- None of the integrated Division of Fire and Medical Training managers, including the Director of Training, are cross-trained in both fire suppression and emergency medical services, and these positions were not externally advertised. The present incumbent of the Manager, Recruit Academy position is not cross-trained despite specific cross-training minimum qualifications in that position's job description.
- The Director of Training job interview process was placed on hold by the Fire Chief on the grounds that it would be infeasible to appoint a new Director of Training during the current integration of fire suppression and EMS training and education staff. As a result of this decision, the integration of the Division of Fire and Medical Training is being managed by a Director of Training who has no paramedic-level medical training or experience.

- Despite the Fire Department's stated concern that the "meet and confer" process with Local 798 is a barrier to restructuring and external advertising of positions, the meet and confer requirement does not preclude the Fire Department management's right to restructure the organization or to appoint external applicants into positions.
- The integrated Division of Fire and Medical Training organizational structure retains separate managers for fire suppression and emergency medical services in-service training despite the similarity of their job functions.
- Despite having been responsible for providing emergency medical services since July 1, 1997, the Fire Department still lacks a pool of appropriately cross-trained Classification H-40 Battalion Chiefs, Classification H-39 Fire Captains (Division of Training), Classification H-30 Fire Captains, Classification H-43 EMS Section Chiefs, and Classification H-33 EMS Captains. Since July 1, 1997, the Fire Department has had six years in which to ensure that its current and future training and education providers are appropriately cross-trained, but the Fire Department has failed to do so.

Budget Analyst's Conclusions:

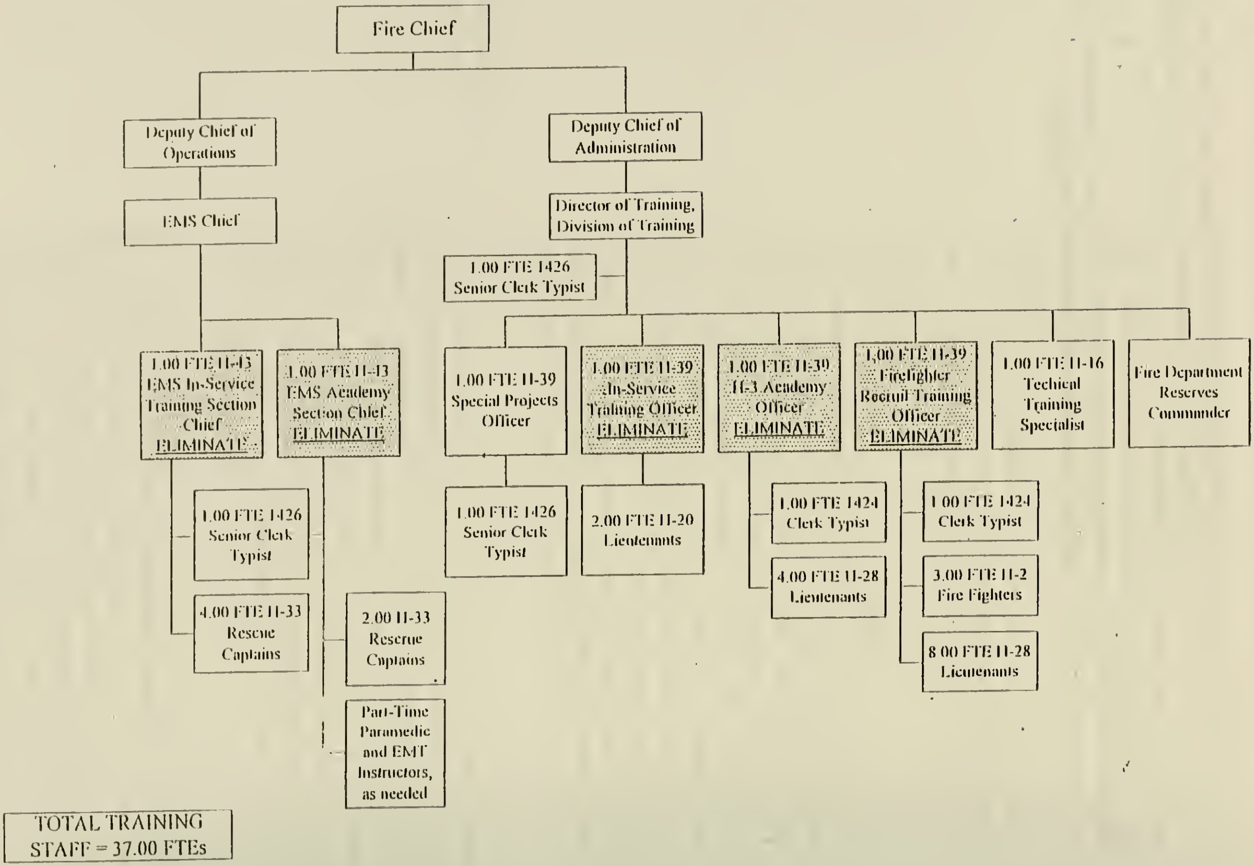
1. The Fire Department has delayed full implementation of Recommendations 1.4.1 to 1.4.3 contained in the Budget Analyst's January, 2002 Management Audit Report of the Fire Department, as previously approved by the Board of Supervisors Rules and Audits Committee. Since the Rules and Audits Committee hearings were held in May of 2002, the Fire Department has had over 17 months in which to implement the Budget Analyst's Recommendations 1.4.1 to 1.4.3 in full.

2. If the Finance and Audits Committee does not approve the release the subject requested reserved funds of $3,903,139 for the Fire Department's Division of Fire and Medical Training, the Fire Department's projected FY 2003-2004 General Fund budget deficit of $4,736,732 for salaries and mandatory fringe benefits would be increased by an additional $2,613,314 (the salary and mandatory fringe benefit component of the reserved funds

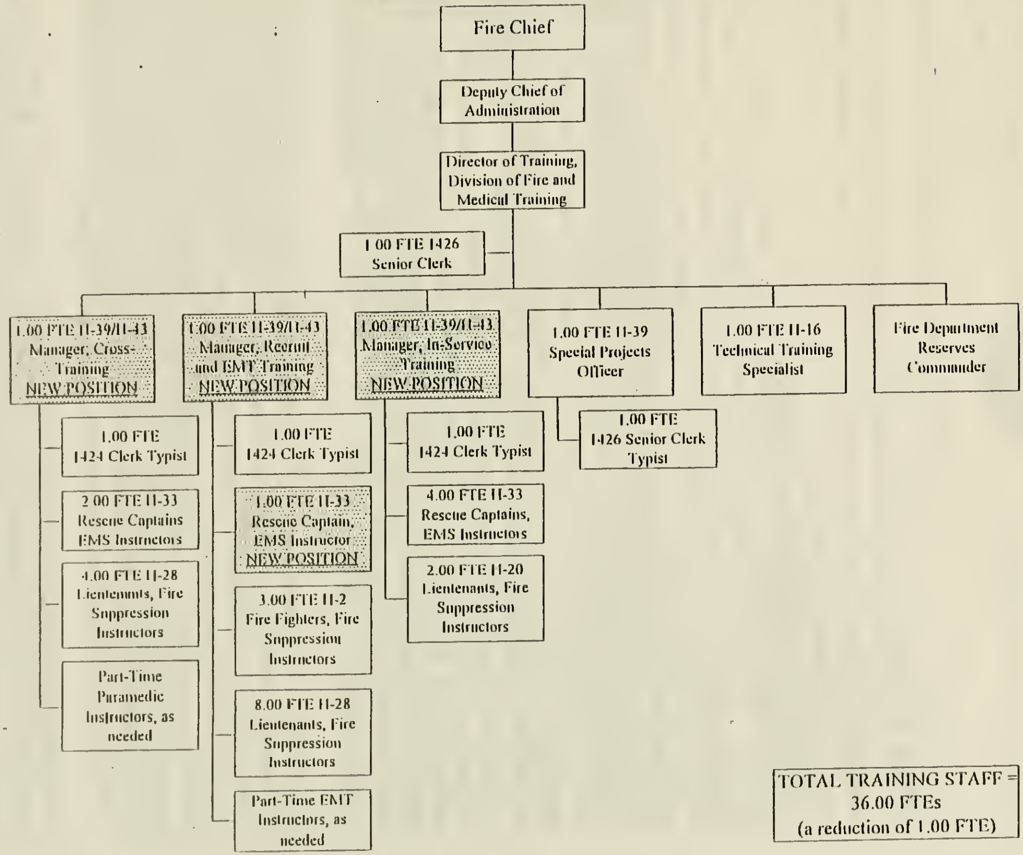
of $3,903,139), thereby increasing the Fire Department's projected FY 2003-2004 General Fund shortfall to $7,350,046.

Recommendation: Approval of the proposed release of reserved funds is a policy matter for the Board of Supervisors.

Current Organization of Fire Department Training Functions: EMS Division and Division of Training



Proposed Organization of Fire Department Training Functions:
Division of Fire and Medical Training



CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO FIRE DEPARTMENT

Mario H. Treviño, Chief of Department
Raymond R. Balzarini, Deputy Chief of Operations
Joseph C. Asaro, Deputy Chief of Administration

698 Second Street
San Francisco, CA 94107
(415) 558-3400

October 24, 2003

Ms. Gloria Young
Clerk of the Board of Supervisors
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco, CA 94102

Dear Ms. Young,

The San Francisco Fire Department is seeking the immediate release of $3,903,139 currently held in the General Fund Reserve. The funds are required to carry out the Department's training function.

The Department's Division of Training (DOT) has made significant progress in further consolidating and integrating the overall training function. The Department has successfully completed the consolidation of three training facilities into two facilities. On September 23, 2003, EMS In-Service Training vacated Building 1216 in the Presidio and co-located with In-Service Suppression Training at the Treasure Island Training Facility. As of September 30, 2003, all EMS functions were moved out of the Presidio facility, resulting in a monthly rental saving of approximately $25,000. Those savings were reflected in the 2003-04 budget.

The concept of a single combined training facility remains a high priority goal of the Department. One central facility would enhance administrative functions, streamline the training process and improve operational response. The Department has researched and identified the requirements for a consolidated training facility. In order to effectively perform our mandate, we would require a parcel of land much larger than anything the Department currently possesses. The Department recognizes the challenge in searching for a large parcel of property in one of the most expensive real estate markets in the nation, but is continuing to look for a long-term solution.

The majority of In-Service training is now being conducted at the Treasure Island Training Facility with a combination of Suppression and EMS training officers. Training modules are being designed that incorporate both medical and firefighting components. The consolidation of staff will result in greater efficiencies. Specifically, suppression staff will be cross-trained and utilized as EMS Skills Instructors. Conversely, the EMS staff will assist as needed in Suppression exercises and evaluations.

Since consolidation efforts have begun, the following reductions have been made:

- 1 H-43 Section Chief
- 1 H-39 Training Captain
- 2 H-33 Rescue Captains
- 1 H-16 Technical Training Specialist
- 1 1426 Senior Clerk Typist

This has resulted in an estimated annual saving of $550,000.

Additionally, two H-28 Training Instructors have been deactivated during the time in which no Recruit Academy is in session. This represents an additional saving of over $17,000.00 per month.

The volume of training required for a workforce of 1400 Firefighters and 350 Firefighter/Paramedics necessitates the Department retain a H-39 Fire Training Manager overseeing Suppression training and education and a H-43 EMS Training Manager for medical training and education. In the future, when more members in mid-level management positions are cross-trained, it may be possible to reconfigure the training staff. In an effort to hasten the process, the Department intends to offer a cross-training course for the H-33 Paramedic Captains to cross-train in fire suppression skills and functions prior to the conclusion of this fiscal year. At the conclusion of this six-week training program, H-33 Paramedic Captains will have received the same didactic education in fire suppression that every firefighter receives in the SFFD Fire Training Academy.

The main function of the Director of Training is primarily administrative. Administrative talent is the most critical quality required of the Director to assure success of the Division of Training, thereby assuring the competency of our members. The Director's core responsibilities include:

- Oversight of $5.2 million budget and Training facilities
- Generating policy and directives
- Providing vision and leadership
- Coordination and tracking of all SFFD training
- Assuring compliance and reporting of mandated training
- Ensuring that the training staff meets the state mandated training requirements and that training programs are certified by Federal, State, and local jurisdictions through the Continuing Education Program

There is no legal mandate, either in the California Code of Regulations (Title 22, Division 9, Chapters 3 & 4) or National Fire Protection Association (NFPA) regulations that mandate the Director possess a paramedic, nursing or medical license. Dr. John Brown, Director of the Department of Public Health, Emergency Medical Services and Operations Section charged with oversight of all EMS compliance in the City and County of San Francisco has provided unequivocal clarification regarding licensure requirements.

The California Code of Regulations does require that training managers and trainers for EMT-1, Paramedic, and all EMS Continuing Education (CE) programs possess current paramedic, nursing or medical licenses. To assure compliance with all State requirements, the Division of Training staff includes six personnel with Paramedic licenses and one licensed physician to carry out these responsibilities. A copy of the organizational structure of the Division of Training is attached.

In a study conducted by the Division of Training, an overwhelming majority of Fire Departments throughout the country that provide fire-based EMS do not require that their Director of Training possess a paramedic, nursing or medical license. These Departments include:

- Birmingham Fire and Rescue, Alabama
- Tucson Fire, Arizona
- Long Beach Fire, CA
- Sacramento Fire, CA
- San Diego Fire, CA
- Miami-Dade Fire and Rescue, Florida
- Kansas City Fire, Kansas
- Clark County Fire, Nevada
- Cincinnati Fire, Ohio
- Philadelphia Fire, Pennsylvania
- Arlington Fire, Texas
- Houston Fire, Texas
- San Antonio Fire, Texas
- Prince William County Fire and Rescue, Virginia

If the training funds are not released, there will be profound compromise in the Department's operations and ability to carry out its mission. In addition, the Department would be compromising the safety of our members and the public, and would be non-compliant with the myriad of local, State and Federal reporting and training requirements.

Thank you for your consideration.

Sincerely,

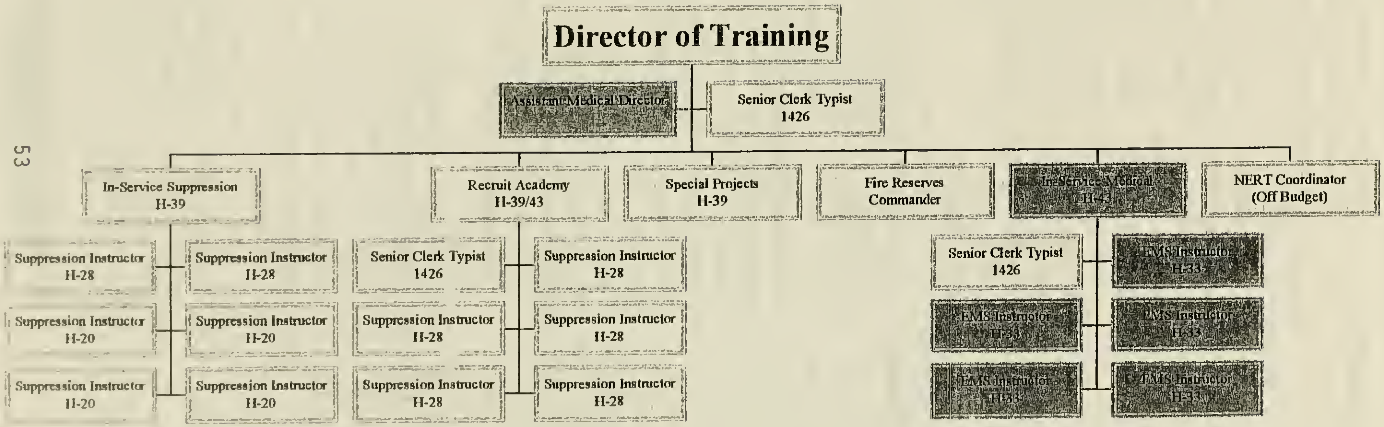
MARIO H. TREVIÑO
Chief of Department

Joanne Hayes-White

By: Joanne Hayes-White
Assistant Deputy Chief, Director of Training

cc: Mayor's Budget Office
Office of the Controller
Budget Analyst's Office

Division of Training



=Possesses a Paramedic, Nursing, or Medical license

Item 6 - File 03-1872

Department: Department of Elections

Item: Supplemental appropriation ordinance to reappropriate $2,016,330 from the Proposition A Implementation Project and reappropriate $274,000 of Department of Elections unexpended permanent salaries for a total of $2,290,330 for temporary salaries, non-personal services, materials and supplies and services of other departments associated with the December 9, 2003 Mayoral and District Attorney Runoff election in San Francisco.

Amount: $2,290,330

Sources of Funds:

$2,016,330	Proposition A Implementation Project
274,000	Permanent Salaries
$2,290,330	Total

Budget:

Temporary Salaries	$600,000
Premium Pay	2,500
Overtime	123,225
Other Fees & Compensation	396,425
Professional & Specialized Services	252,830
Property Rent	13,300
Equipment Leases	61,435
Other Current Expenses	259,880
Materials & Supplies	351,250
Services of Other Depts.	
Building Services	20,000
DTIS	45,000
DPW-Building Repair	2,000
Parking and Traffic	30,000
Central Shops	500
Port	3,145
Sheriff	93,840
Reproduction	35,000
Total	$2,290,330

Description: The proposed supplemental appropriation request would be used to fund the costs of the December 9, 2003 Mayoral and District Attorney Runoff election in San Francisco.

The subject supplemental appropriation would be funded with $274,000 of reappropriated Permanent Salary funds from the Department of Elections FY 2003-2004 budget (See Comment No. 2) and $2,016,330 of Proposition A Implementation Project funds. Proposition A, approved by the San Francisco voters on March 5, 2002, was a Charter Amendment to require the City to implement an instant run-off or ranked choice voting system, in order to eliminate separate run-off elections. The Proposition A Implementation Project includes $1,600,000 of General Fund monies appropriated for a contract with Elections Systems & Software (ES&S) to implement ranked choice voting (See Comment No. 3) and $776,000 of General Fund monies appropriated for public education and outreach regarding ranked choice voting in San Francisco (See Comment No. 3), for a total of $2,376,000 of funds previously appropriated by the Board of Supervisors for the Proposition A Implementation Project. The requested amount of $2,016,330 to be reappropriated from the Proposition A Implementation Project under the subject ordinance is therefore $359,670 less than the total amount appropriated for the Proposition A Implementation Project.

Comments:

1. On October 9, 2003, the Controller identified a potential FY 2003-2004 Citywide General Fund Reserve shortfall of $8,772,983. In this October 9, 2003 memorandum to the Board of Supervisors, the Controller advised that:

> At this time, we project that the City's General Fund Reserve for FY 03-04 is inadequate to offset revenue losses for this year and to meet the expenditure needs of the City. As a result, the Controller cannot certify availability of funds for any future General Fund Supplemental Appropriation requests unless revenues increase above the current expected level, and/or expenditures are reduced below current budgeted levels.

Therefore, the Mayor's Office advises that the proposed supplemental appropriation for the

Department of Elections is not being requested to be funded with General Fund Reserve monies.

2. The proposed supplemental appropriation includes $274,000 of Permanent Salary funds to be reappropriated from the FY 2003-2004 budget of the Department of Elections. This is possible because a review of the Department of Elections spending patterns as of October 24, 2003 indicates that, similar to previous year's salary expenditure patterns, the Department is significantly underspending Permanent Salaries and significantly overspending Temporary Salaries[1]. According to the FY 2003-2004 Annual Salary Ordinance, the Department of Elections has 29.25 FTE budgeted Permanent Salary positions and 28.87 FTE budgeted Temporary Salary positions, for a total of 58.12 FTEs budgeted positions. However, according to Ms. Suzanne Berg of the Department of Elections, there are currently only 12 FTE permanent positions filled, or 41 percent of the total 29.25 FTEs budgeted in the Department with the balance of 17.25 FTE permanent positions, or 59 percent of the permanent positions currently vacant.

The Budget Analyst notes that a $3,670,300 supplemental appropriation (File 03-1395) for the Department of Elections to conduct the October 7, 2003 Special Recall Election, which was approved by the Board of Supervisors in September of 2003, also included $150,000 of reappropriated Department of Elections Permanent Salary funds. If the proposed supplemental appropriation is approved, a total of $424,000 ($150,000 in the previous supplemental appropriation plus $274,000 in the proposed supplemental appropriation) of the original total $1,150,335 FY 2003-2004 Permanent Salary funds would be reappropriated for Temporary Salary purposes, leaving a balance of $726,335 in unexpended Permanent Salaries. According to Mr. John Arntz of the Department of Elections, the Department has been

[1] As of the pay period ending October 24, 2003, the Department had only expended $182,733 of the original budgeted $1,150,335 Permanent Salary funds, or 15.9 percent. However, the Department has expended $1,088,295 of the original budgeted $1,810,000 Temporary Salary funds, or 60.1 percent.

delayed in hiring additional permanent staff due to the length of time it takes to complete the City's requisitions process. Mr. Arntz advises that the Department's current goal is to work with the Department of Human Resources (DHR) to fill nine currently vacant permanent positions by the end of calendar year 2003.

As noted above, based on projections for the remainder of the fiscal year, the Department is significantly overexpending Temporary Salary funds. Although the proposed supplemental appropriation would provide an additional $600,000 of Temporary Salary funds to cover the additional temporary staff needs for the December 9, 2003, the Budget Analyst cautions that there is another election scheduled in March of 2004. All of the costs for the March of 2004 election, including Temporary Salary funds, were already included in the Department's FY 2003-2004 budget. Ms. Berg advises that the Department will carefully manage its temporary salary staff and funds, such the Department will not require another supplemental appropriation in FY 2003-2004, except for potential additional expenditures related to the ES&S contract, as noted in Comment Nos. 4 and 5 below.

3. In addition to reappropriating $274,000 of Permanent Salary funds, the proposed supplemental appropriation would reappropriate $2,016,330 from the Proposition A Implementation Project, including (1) $776,000 of previously appropriated General Fund Reserve monies designated for public education and outreach and (2) $1,240,330 of previously appropriated General Fund Reserve monies from the $1,600,000 ES&S amended contract to implement ranked choice voting.

In June of 2003, the Finance and Audits Committee recommended approval of a $526,000 supplemental appropriation (File 03-0845) from the General Fund Reserve for the Department of Elections to conduct public education and outreach for Ranked Choice Voting for the November 4, 2003 election. The Board of Supervisors subsequently added $250,000, for a total supplemental appropriation of $776,000 for this public

education and outreach effort. The proposed supplemental appropriation would reappropriate all of the $776,000 previously appropriated by the Board of Supervisors for public education and outreach for ranked choice voting in San Francisco to be used instead to fund the December 9, 2003 Mayoral and District Attorney Runoff election. According to Mr. Arntz, given that (1) ranked choice voting has not yet been certified by the Secretary of State and (2) there are no local candidates on the March of 2004 election that would require ranked choice voting, the earliest that ranked choice voting could be implemented would be in November of 2004. Therefore, Mr. Arntz advises that the $776,000 of appropriated funds for public education and outreach for ranked choice voting would not be needed this fiscal year.

4. The proposed supplemental appropriation would also reappropriate $1,240,330 of unexpended funds from the amended $1,600,000 Elections Systems & Software (ES&S) contract with the Department of Elections, leaving a remaining ES&S contract balance of $359,670. The $1,600,000 contract amendment with ES&S was to upgrade the existing elections systems hardware and software in order to implement Ranked Choice Voting (RCV) in San Francisco, in accordance with Proposition A, which was approved by the San Francisco voters on March 5, 2002.

According to Ms. Monique Zmuda, if the proposed ordinance is approved, the Controller's Office would transfer the $1,240,330 of the previously appropriated $1,600,000 from the amended ES&S contract to pay for the expenditures to be incurred by the Department of Elections for the December 9, 2003 runoff election. Ms. Zmuda advises that although the ES&S contract would not need to be amended to reflect the lower amount, the Department of Elections would need to manage the ES&S contract sufficiently to insure that the ES&S contract costs did not exceed the $359,670 ($1,600,000 less $1,240,330) that would remain to fund the ES&S contract in the current fiscal year. The Budget Analyst notes that, similar to other City contracts with outside vendors, the Department of Elections contract with ES&S contains provisions

which state that payment to the outside contractor is subject to appropriation authorization by the Board of Supervisors and the Mayor. If the proposed ordinance is approved, the appropriation authorization by the Board of Supervisors and the Mayor under the proposed contract would be reappropriated to reflect the lower $359,670 amount in the current fiscal year.

According to Mr. Arntz, to date, the Department of Elections has authorized payment of $100,000 to ES&S for completion of the design specifications for the RCV System, leaving a remaining available contract balance of $259,670 ($359,670 less $100,000), if the proposed supplemental appropriation ordinance is approved. Mr. Arntz advises that the remaining $259,670 may not be sufficient to meet the Department's contractual obligations to ES&S for the development of ranked choice voting technology in the current fiscal year. Therefore, Mr. Arntz advises that, if the proposed supplemental appropriation is approved, by reappropriating the Proposition A Implementation Project funds, the City would need to replace such reappropriated ranked choice voting implementation funds if ES&S performs additional ranked choice voting work beyond the $259,670 balance in the current fiscal year. Alternatively, the Department of Elections would need to request a supplemental appropriation to pay for such additional expenditures.

5. In accordance with the contract that the Department of Elections has with ES&S to provide ongoing elections support functions, the Department of Elections is scheduled to pay ES&S an annual service payment of $145,900 in January of 2004. The Budget Analyst notes that the FY 2003-2004 Department of Elections budget includes funds to pay the $145,900 annual service payment to ES&S in January of 2004.

However, Mr. Arntz advises that ES&S is now requesting an additional $198,512 to provide elections support functions for the December 9, 2003 runoff election. The Budget Analyst notes that the proposed supplemental appropriation does not include any

additional funds to pay ES&S for elections support functions for the December 9, 2003 runoff election.

Mr. Arntz advises that the contract between the Department of Elections and ES&S does not identify the specific number of elections that ES&S will be responsible for providing elections support for each year. However, Mr. Arntz advises that, under the existing contract, ES&S has provided elections support functions and services for the runoff elections in San Francisco in December of 2000, December of 2001 and December of 2002. Furthermore, Mr. Arntz advises that the Department of Elections has never paid any additional funds to ES&S for such runoff election support services.

6. On September 17, 2003, as part of the review of the $3,670,300 supplemental appropriation for the October 7, 2003 Special Recall Election, the Finance and Audits Committee directed that the Budget Analyst conduct an independent special study during the October, November and December of 2003 elections, to determine the required need and associated costs for the Sheriff's Department to provide security for the Department of Elections. As part of this effort, the Budget Analyst reviewed the Sheriff's Department security plans and operations during the October 7, 2003 Recall Election and the November 4, 2003 election. This subject proposed supplemental appropriation includes $93,840 of overtime expenditures for the Sheriff's Department to provide security for the December 9, 2003 runoff election. Based on the Budget Analyst's review of the October 7, 2003 and November 4, 2003 elections, the Budget Analyst discussed with the Sheriff's Department and the Department of Elections some preliminary findings and initial recommended reductions. As a result, the Sheriff's Department is now projecting overtime expenditures of $63,620, a reduction of $30,220 or 32.2 percent, from the $93,840 amount included in the proposed supplemental appropriation request for the December 9, 2003 runoff election. Therefore, the Budget Analyst recommends that the Sheriff's Department expenditures in the proposed supplemental appropriation be reduced from $93,840

to $63,620, a savings of $30,220. The Budget Analyst will continue to conduct the special study of Sheriff's Department security for the Department of Elections during the December 9, 2003 elections, and will submit a separate final report to the Finance and Audits Committee covering the Budget Analyst's findings and recommendations regarding the Sheriff's security expenditures for the October 7, November 4 and December 9, 2003 elections.

7. The Budget Analyst notes that the Department of Elections has already incurred many of the personnel and nonpersonnel expenses in this requested supplmental appropriation. The Budget Analyst further notes that the requested reappropriation of funds would not be finally approved by the Board of Supervisors until after the December 9, 2003 Runoff Election. Therefore, the Department of Elections will have expended most of the requested expenditures, such that the proposed supplemental appropriation should be amended to provide for retroactive approval.

Recommendations: 1. Amend the proposed supplemental appropriation to provide for retroactive approval in accordance with Comment No. 7.

2. Reduce the requested Sheriff's Department expenditures under the Services of Other Departments in the proposed supplemental appropriation from $93,840 to $63,620, a savings of $30,220 and reduce the total request of $2,290,330 by $30,220 to $2,260,110.

3. Approval of the proposed supplemental appropriation, as amended, is a policy matter for the Board of Supervisors, because the source of funds for this supplemental appropriation is from reappropriated Proposition A Implementation funds, which were originally appropriated by the Board of Supervisors to implement Ranked Choice Voting in San Francisco.

Item 7 - File 03-1831

Department: Administrative Services, Real Estate Division (RED)
Department of Public Works (DPW)
San Francisco Redevelopment Agency (SFRA)

Item: Resolution approving and authorizing a Parcel Exchange Agreement for the exchange of certain real property with the State of California; adopting findings pursuant to the California Environmental Quality Act; adopting findings that the conveyance is consistent with the City's general plan and eight priority policies of the City Planning Code Section 101.1; and authorizing the Director of Property to execute documents and take certain actions in furtherance of this resolution.

Description: The proposed resolution would approve and authorize a Parcel Exchange Agreement between the City and the State. The City currently owns a 12,217 square foot parcel (Parcel B), which was formerly occupied by the Central Freeway. The State owns four parcels totaling 21,880 square feet (Parcels DOF-1 through 4). The proposed Parcel Exchange Agreement would transfer ownership of Parcel B from the City to the State and would transfer the ownership of Parcels DOF-1 through 4 from the State to the City for the Octavia Boulevard Project. The Octavia Boulevard Project involves replacing the Central Freeway, Route 101, which was damaged in the 1989 Loma Prieta earthquake, with a ground-level boulevard along Octavia Street and a new four-lane roadway between Mission and Market Streets.

The proposed resolution also declares that the exchange of property is consistent with the City's General Plan and with the Eight Priority Policies of City Planning Code Section 101.1 and is exempt from Environmental Review.

Comment: 1. Attachment I to this report, provided by Mr. Jerry Romani of the Real Estate Division, is a map that shows the subject parcels to be transferred. Attachment II to this report, also provided by Mr. Romani, states that:

> "The City negotiated the proposed Parcel Exchange Agreement with the State in order to obtain title to the four State-owned parcels (Parcels DOF-1 through 4) and

thereafter merge the four DOF parcels with adjoining City-owned parcels (Central Freeway Parcels F, G, and I). By merging the parcels the City would create more regularly-shaped parcels which would be more valuable and desirable to developers and thus generate more revenue from the sale of the parcels for funding of the Octavia Boulevard Project."

2. Mr. Romani states that the Real Estate Division retained Carneghi-Bautovich & Partners, Inc. to appraise Parcel B owned by the City and Parcels DOF- 1 through 4 owned by the State in October of 2001. Carneghi-Bautovich & Partners concluded that the fair market value of the City's Parcel B is $1,710,500 and the fair market value of the State's Parcels DOF- 1 through 4 is $2,715,000, or $1,004,500 more than the value of the City-owned Parcel B.

As noted in Attachment II to this report, the State has agreed to exchange Parcels DOF- 1 through 4 for Parcel B without requiring any additional cash contribution from the City, except for requiring the City to pay the title insurance and escrow fees totaling $5,633, even though the State's parcels are valued at $1,004,500 more than the City's parcel because this transfer will allow the City [through the SFRA] to develop affordable housing on Parcel DOF- 1. Ms. Kate Hartley of the SFRA advises that the sale of Parcel DOF-1 to the SFRA will allow the SFRA to develop 17 affordable housing units. Ms. Tina Olson of the DPW states that the Octavia Boulevard Project Fund would be the source of the $5,633 required for the parcel transfer. Mr. Romani states that once Parcels DOF- 1 through 4 are transferred to the City by the State, the City will sell Parcel DOF- 1 to the SFRA for $1,032,121, which is the fair market value of the Parcel as determined by an independent appraiser Carneghi-Bautovich & Partners in October of 2001. According to Mr. Romani, the City will also sell Parcels DOF- 2 through 4 for the development of market rate housing in the future. Mr. Romani advises that the buyers for Parcels DOF- 2 through 4 and the number of housing units that will be developed on these parcels has not yet been determined.

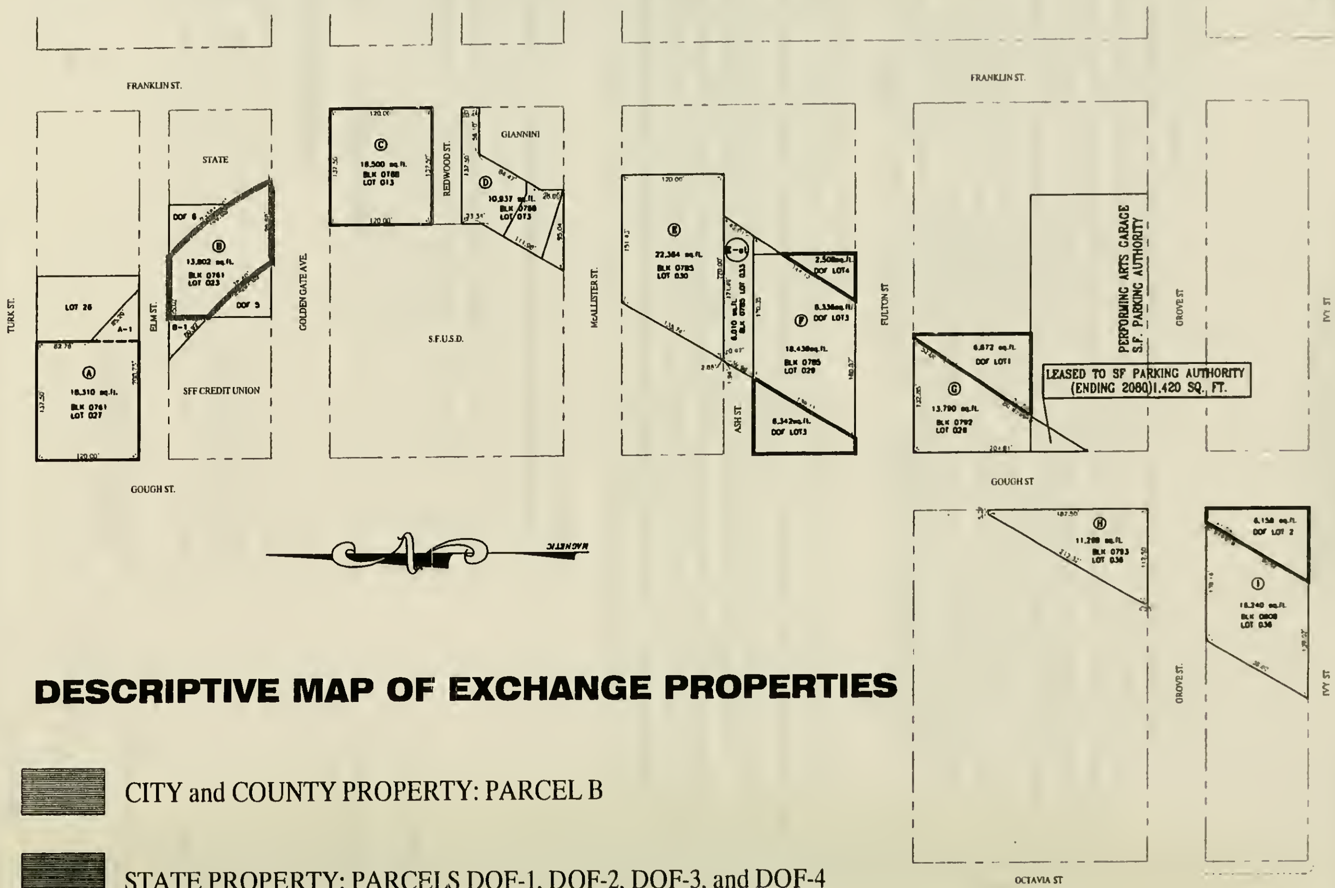
3. According to Mr. Romani, the Planning Department has determined that the proposed Parcel Exchange Agreement is

in conformance with the City's General Plan and the Eight Priority Policies of the City Planning Code and is Categorically Exempt from Environmental Review.

4. In summary, Mr. Romani notes that in exchange for the City granting the State the City-owned Parcel B valued at $1,710,500, the City would receive four parcels from the State valued at $2,715,000, that better facilitate the development of the Octavia Boulevard Project.

Recommendation: Approve the proposed resolution.

EXHIBIT A



DESCRIPTIVE MAP OF EXCHANGE PROPERTIES

CITY and COUNTY PROPERTY: PARCEL B

STATE PROPERTY: PARCELS DOF-1, DOF-2, DOF-3, and DOF-4

C: /EDRIVE/ROMANI/OCTAVIA/INDIVIDUALDRAWING/Descriptive map of Exchange....DWG

City and County of San Francisco

Real Estate Division
Administrative Services Department

Attachment II

MEMORANDUM

November 20, 2003

VIA FACSIMILIE

TO: Elaine Forbes
Budget Analyst's Office

FROM: Jerry Romani
Principal Real Property Officer

SUBJECT: Basis for Real Property Exchange with the State of California (Central Freeway Parcel B)

The City negotiated the proposed Parcel Exchange Agreement with the State in order to obtain title to the four State-owned parcels (Parcels DOF-1 through 4) and thereafter merge the four DOF parcels with adjoining City-owned parcels (Central Freeway Parcels F, G and I). By merging the parcels the City would create more regularly-shaped parcels which would be more valuable and desirable to developers and thus generate more revenue from the sale of the parcels for funding of the Octavia Boulevard Project. Please refer to such parcels as shown on attached Exhibit A. In addition, after the exchange City parcels will provide for 17 more affordable housing units than currently developable on City parcels prior to the exchange.

Independent appraisals were prepared on all the parcels by Carneghi-Bautovich & Partners, Inc. The four State-owned DOF parcels have a fee simple interest market value of $2,715,000 while the City owned parcel (Parcel B) has a fee simple interest market value of $1,710,500, which results in a value differential of $1,004,500 in favor of the City. The State agreed to exchange the parcels with no cash consideration from the City other than City paying for a CLTA policy of title insurance on Parcel B ($4,133) and the escrow fees for the transaction ($1,500). The State justified the terms of the exchange by determining the value differential to be a subvention augmenting the supply of affordable housing and facilitating the development of new State facilities in San Francisco. The State's position on the subvention is contained in Section 1 of the proposed Parcel Exchange Agreement.

(415) 554-9850
FAX: (415) 552-9216

Office of the Director of Property
25 Van Ness Avenue, Suite 400
San Francisco, 94102

Item 8 – File 03-1836

Department: Juvenile Probation

Item: Resolution concurring with the Controller's certification that Intake and Shelter Services for Status Offenders can continue to be practically performed by a private contractor for lower cost than similar services performed by City and County employees.

Services to be Performed: Intake and shelter services for status offenders

Description: Charter Section 10.104.15 provides that the City may contract with private firms for services, if the Controller certifies, and the Board of Supervisors concurs, that such services can be practically performed by private firms at a lower cost than similar work by City and County employees.

The Controller has determined that contracting for the intake and shelter services, which in addition to shelter services includes family reunification, counseling and medical services, for status youth offenders for FY 2003-2004 would result in estimated savings as follows:

	Low	High
City Operated Service Costs		
Salaries	$811,276	$992,220
Fringe Benefits	180,510	195,599
Total City Cost	$991,786	$1,187,820*
Contractual Services Costs	682,156	708,431
Estimated Savings	$309,630	$479,389

*Rounded

Comments:

1. Mr. Lonnie Holmes of the Juvenile Probation Department reports that the Juvenile Probation Department first entered into a contract with Huckleberry Youth Programs (formerly known as Youth Advocates, Inc.) in 1984 to provide a community-based central receiving facility that provided shelter services for status offenders. According to Mr. Holmes status offenders are youth who have run away from home, have a history of truancy, or are in other ways out of their parents' control, but who are not in the criminal justice system. Mr. Holmes advises that prior to the contract with Huckleberry Youth Programs to provide the community-based central receiving facility services, such status offenders were retained in Juvenile Hall.

According to Mr. Holmes, in 1989 the Juvenile Probation Department expanded the services provided under the contract with Huckleberry Youth Programs to include intake and shelter services for status offenders, which in addition to shelter services includes family reunification, counseling and medical services. Mr. Holmes reports that Huckleberry Youth Programs currently provides a 24-hour short-stay shelter and needs assessment for youth, with the goal of reuniting youth with their family or providing appropriate longer-term placement.

2. Mr. Holmes reports that the Department first entered into a contract to provide a central receiving facility that provided shelter services for status offenders in 1984. The year in which the central receiving facility was first certified under Charter Section 10.104.15 was also 1984. The expanded intake and shelter services contract, that includes family reunification, counseling and medical services, was first certified by the Controller under Charter Section 10.104.15 in 1989, and intake and shelter services have been continuously provided under the outside contract since then.

3. According to Mr. Holmes, the current four-year contract with Huckleberry Youth Programs began on July 1, 2001 and expires on June 30, 2005. Huckleberry Youth Programs was selected under a competitive bid process, according to Mr. Holmes. Mr. Holmes reports that a

competitive bidding process will be used to select the contractor for intake and shelter services that would begin on July 1, 2005.

4. The Contractual Services Costs used for the purpose of this analysis are based on the Juvenile Probation Department's estimate of the FY 2003-2004 contractual costs for intake and shelter services for status offenders, including the salary and fringe benefits of 1.0 FTE 8444 Deputy Probation Officer responsible for monitoring the contract.

5. The Controller's supplemental questionnaire with the Juvenile Probation Department's responses is shown in the attachment to this report.

Recommendation: Approve the proposed resolution.

CHARTER 10.104.15 (PROPOSITION J) QUESTIONNAIRE

DEPARTMENT: Juvenile Probation Department

CONTRACT SERVICES: Status Offender Services

CONTRACT PERIOD: July 1, 2003 to June 30, 2004

(1) Who performed the activity/service prior to contracting out?

The Juvenile Hall Counselors: 3- 8315 Assistant Counselors 7-8320 Counselors, 1-8316 Counselor II

(2) How many City employees were laid off as a result of contracting out?

None. Eleven (11) positions were cut from the Budget. No permanent staff where laid off

(3) Explain the disposition of employees if they were not laid off.

No permanent employees were laid off.

(4) What percentage of City employees' time is spent on services to be contracted out?

50% of 1-8414 Supervising Probation Officer
100% of 1-8442 Senior Probation Officer
100% of 3-8440 Probation Officers
100% of 2-- 8318 Counselor II
100% of 14 – 8320 Counselor

(5) How long have the services been contracted out? Is this likely to be a one-time or an ongoing request for contracting out?
The contract with Huckleberry Youth Programs, Inc., for a central receiving facility was first entered into by the Juvenile Probation Department February 1, 1984. The contract expanded to include shelter and intake for status offenders on April 1, 1988. This agreement is on-going and the Department expects to continue to contract these services out.

(6) What was the first fiscal year for a Proposition J certification? Has it been certified for each subsequent year?

The first year for the central receiving contract was fiscal year 1983/84. The first year for the expanded contract was fiscal year 1988/89. This contract has been renewed each subsequent year.

(7) How will the services meet the goals of your MBE/WBE Action Plan?

Huckleberry Youth Programs, Inc. is a non-profit agency therefore it does not fall within purview of MBE/WBE goals. Extensive outreach was accomplished at the Request for Qualification when the Department was seeking potential MBE/WBE providers.

(8) Does the proposed contractor provide health insurance for its employees?

Yes. The contractors provides health benefits to all of its employees.

(9) Does the proposed contractor provide benefits to employees with spouses? If so, are the same benefits provided to employees with domestic partners? If not, how does the proposed contractor comply with the Domestic Partners ordinance? This contractor is in compliance with all city mandates regarding benefits to employees, spouses and domestic partners.

(10) Does the proposed contractor pay meet the provisions of the Minimum Compensation Ordinance?

This contractor is in compliance with the City's Minimum compensation Ordinance.

Department Representative: Lonnie S. Holmes

Telephone Number: 415-753-7852

Item 9 – File 03-1851

Department: Department of Public Health (DPH)

Item: Resolution endorsing the transfer of State General Fund monies, previously allocated by the State to San Francisco, to the California Mental Health Directors Association, to pay for the cost of services provided to foster care and other Medi-Cal eligible children placed outside of San Francisco.

Amount: $50,000

Source of Funds: State of California General Fund

Description: The DPH currently participates in a Statewide contract for the provision of mental health services to San Francisco children who are either (a) placed by the City's Department of Human Services (DHS) in foster care facilities located outside of San Francisco or (b) are adopted by families residing outside of San Francisco. The California Mental Health Directors Association (Association), a nonprofit organization comprised of Statewide county mental health directors, contracts with the Statewide Administrative Services Organization (ASO) Value Options, a private behavioral health organization, to provide mental health referral services for San Francisco children who are either placed by DHS in out-of-county foster care facilities or are adopted by families residing outside of San Francisco.

Under the contract between the Association and Value Options, Value Options pays the mental health providers directly for the mental health services provided to eligible foster care children and adopted children, and receives reimbursement from the Association for payments made to the providers and for the administrative fees of Value Options.

Under the proposed resolution, San Francisco's DPH would transfer to the Association $50,000 of State General Fund monies previously allocated by the State to San Francisco to pay for applicable mental health services to be provided in Fiscal Year 2003-2004 for eligible San

Francisco children. According to Mr. Philip Tse of the DPH, the DPH, and not the State, determines the amount of State General Fund monies to be transferred to the Association, based on the anticipated number of children to receive services during each fiscal year.

According to Mr. Tse, the DPH estimates that the proposed transfer of $50,000 in State General Fund monies to the California Mental Health Directors Association represents 50 percent of the estimated $100,000 of the costs to provide the applicable mental health services. In addition, according to Mr. Tse, San Francisco is eligible to receive an estimated $50,000 in Federal matching funds from the Federal Centers for Medicaid and Medicare Services in FY 2003-2004 to cover the total estimated service costs of $100,000. According to Mr. Tse, the $50,000 in State General Fund monies and the $50,000 in Federal matching funds were previously approved by the Board of Supervisors in DPH's FY 2003-2004 budget. According Mr. Tse, in contrast to the subject $50,000 in State funds, a transfer of the $50,000 of Federal matching funds to the California Mental Health Directors Association is not required.

Comment: According to Mr. Tse, the purpose of transferring the subject State funds in the amount of $50,000, from the DPH to the California Mental Health Directors Association, together with using the $50,000 in Federal matching funds, is to facilitate access to mental health services for eligible San Francisco children by utilizing the Statewide Administrative Services Organization referral program.

Recommendations: Approve the proposed resolution.

Item 10 – File 03-1812

Department: Law Library
Superior Court

Item: Resolution increasing Civil Filing and Appearance Fees provided in California Business and Professions Code Sections 6321, 6322 and 6322.1 for operation of the Law Library.

Description: The proposed resolution would increase the civil filing and appearance fee paid by parties to a civil lawsuit, as provided in Sections 6321 and 6322 of the California Business and Professions Code, from $30 to 33, a $3 or 10 percent increase. Under the proposed resolution, to become effective January 1, 2004, the San Francisco Superior Court would be authorized and directed to collect the proposed $33 fee for each civil filing and appearance before the Superior Courts and to pay such collected fees to the Law Library to support the Law Library's operations.

Ms. Marcia Bell of the Law Library reports that County Law Libraries are established in accordance with State law. According to Ms. Bell, State Business and Professions Code Section 6322.1 permits the Board of Supervisors to annually increase the Law Library civil filing and appearance fee by $3 per filing, as long as the increase is excluded from the definition of total civil filing fees. Ms. Bell advises that, if the fee increase was included in the definition of the total filing fees, the effect would be to reduce the portion of the total civil filing fee transmitted to the State Controller for deposit in the Trial Court Trust Fund. The intent of Section 6322.1 is to permit a Law Library fee increase without affecting the fees transmitted to the State Controller for deposit in the Trial Court Trust Fund.

Comments: 1. Ms. Bell reports that Law Library civil filing and appearance fees were last increased two years ago, from $27 to $30, effective January 2002.

2. In the attached memorandum (Attachment I) to the Board of Supervisors, provided by the Law Library, Ms. Bell estimates that the Law Library will receive a total of

approximately $61,800 in additional revenues for six months in FY 2003-2004 if the requested $3 increase in the civil filing and appearance fee is approved, based on an effective date of January 1, 2004, and if the number of filings for the last half of FY 2003-2004 remains the same as the number of filings during the same six month period in FY 2002-2003. On an annual basis, the fee increase would generate an estimated $123,600 in additional fee revenues for the Law Library, according to Ms. Bell.

3. Attachment II, provided by Ms. Bell, shows the FY 2003-2004 budget and funding sources for the Law Library, including this proposed $3 fee increase effective January 1, 2004. Ms. Bell reports that the civil filing and appearance fee increase is necessary "to fund ongoing operations, to keep pace with inflation, service needs, and information technologies." According to Ms. Bell, the $96,101 decrease in the revised budget from the original budget in filing fee income represents a more recent projection based on a reduced number of filings.

4. According to Ms. Bell, the Law Library plans to reduce its FY 2003-2004 expenditures in the Books and Multimedia Materials category to cover its FY 2003-2004 budgetary shortfall of $94,977 shown in Attachment II. The shortfall assumes approval of the proposed $3 civil filing and appearance fee increase.

Recommendation: Approve the proposed resolution.

San Francisco Law Library
401 Van Ness Avenue, Room 400
San Francisco, California 94102
415-554-6824
Fax415-554-6194
www.sfgov.org/sfll

To: Members of the Board of Supervisors
From: Marcia R. Bell, Law Librarian
Date: October 7, 2003
Re: Resolution to Increase Law Library Civil Filing Fee by $3.00

Proposed Resolution:
To increase the Law Library's civil filing fee from $30.00 to $33.00 effective January 2004.

Law Library Funding Sources:
The San Francisco Law Library was the first of 58 county law libraries established in California. County law libraries operate pursuant to California Business & Professions Code sections 6300-6365 and are mandated to provide access to legal materials to the public and legal community. They are autonomous agencies governed by a board of trustees. Filing fees and a small amount of miscellaneous income are the source of funding for Law Library operating expenses including books, equipment, taxes, salaries, benefits, insurance, and rent for the library's branch.

The City Charter requires the City to fund an annual appropriation for three staff positions, DTIS services, book storage, and rent at the Veterans Building. The appropriation for FY 03-04 is $512,962, although $16,183 of that sum was funded by the Law Library Board from filing fee revenues as a cost-savings contribution.

Filing Fees:
Section 6322 of the Business and Professions code provides that California county law libraries shall be funded by filing fees collected by the clerk of the court on the library's behalf at the time civil suits are filed with the court. This filing fee revenue is independent of state, court or county funds. Filing fee revenue is not deposited to or part of the general fund, and does not impact court or state funds. Increases in filing fees do not take money away from the courts or any other entity; the fees are collected from civil litigants on behalf of the law library. Currently, the Law Library filing fee is $30.

Filing Fee Increases:
Periodic increases in the Law Library's filing fee are necessary to fund ongoing operations, to keep pace with inflation, service needs, and information technologies. Thus, Business and Professions code section 6322.1 provides that the Library's filing fee may be increased by $3.00 per year upon approval of a resolution by the local Board of

Supervisors, even though the filing fees do not affect the general fund. All California

county law libraries regularly and routinely seek and obtain approval for such filing fee increases in order to fund operations and offset normal and inflationary cost increases. The rate of inflation for legal publications exceeds that of the general economy, yet legal materials must be updated to maintain currency as laws are amended and revised constantly. In the year 2001, legal book costs increased 20.4% from the previous year, and another 9.77% in 2002, according to the American Association of Law Libraries Price Index, in contrast to the Consumer Price Index which increased by 1.6% and 2.4% during the same periods. In FY 2002/03 the Law Library'sworkers compensation insurance increased 160% and its health insurance costs increased by 23.8% over the previous year. Periodic fee increases are essential to fund Library operations: fee revenue is the Library's main source of revenue.

Projected Fiscal Impact of the $3 Filing Fee Increase:
If the number of filings does not decline in the second half of this fiscal year, the proposed increase would generate an additional $61,800, which would offset the $60,941 loss in fee revenue this year to date.

Impact on San Francisco Law Library Users:
The mission of the San Francisco Law Library is to provide access to legal materials to all persons interested in the law. The Law Library contains legal information not available to members of the public at the Public Library or accessible on the Internet. The public heavily relies on the Law Library's resources, and reference assistance as their source of legal information. Approximately half of the library's patrons are ordinary people with no legal training; this is their only source of reliable legal information. Many of them consult business materials such as forms, leases, city codes, and represent themselves because lawyers are economically unfeasible for them. Other users come to the library as a last resort after legal services agencies turn them away or refer them to the Law Library. Attorneys, especially solo practitioners and members of small law firms, use the Law Library for specialized reference assistance and to consult materials too expensive to maintain in their offices.

Deadline:
State law provides that library filing fee increases take effect January of the year following passage of the resolution. If the Board of Supervisors does not approve the proposed increase before the end of the year, the Law Library cannot receive the benefits of the filing fee increase until January 2005, and as a result the law library could lose $120,000in revenue annually that would have been generated by the filing fee increase.

Law Library Budget FY 2003-04
(Non-General Fund)

	Original Budget	Revised Budget
Filing Fee Income:	1,569,470	1,473,369
($3 increase assumed 1/04)		
Miscellaneous Income:		
Interlibrary Loan Fees	75,000	75,000
Investment Interest	70,000	70,000
Checking & Savings Interest	125	125
Copiers & Fax	2,200	2,200
Miscellaneous	2,200	2,200
Total Income	1,718,995	1,622,894
Operating Expenses:		
Salaries	545,000	545,000
Health Insurance	63,500	63,500
Retirement Fund	53,267	53,267
Books & Multimedia Materials	604,800	604,800
Bookbinding	18,000	18,000
Contractural Services	6,000	6,000
Insurance	26,108	26,108
Library Systems Maintenance	25,500	25,500
Materials & Supplies	11,500	11,500
Miscellaneous	7,500	7,500
PC's, Furniture & Equipment	23,200	23,200
Payroll Taxes	49,500	49,500
Postage & Delivery	2,100	2,100
Public Relations	8,200	8,200
Rent Branch	149,013	149,013
Repairs & Facilities Maintenance	15,500	15,500
Training & Prof Affiliations	16,000	16,000
Space Study/Building Program	7,000	7,000
Due Diligence & Concept Studies	15,000	15,000
CCSF Appropriation Contribution	16,183	16,183
Contingency/Building Fund	55,000	55,000
Total Expenses		1,717,871
Shortfall		(94,977)

$61,800 generated for $3 increase if # filings same as 02/03. Rev. income due to 13% decline in fees YTD.

Item 11– File 03-1747

Department: Board of Appeals

Item: Ordinance amending the Administrative Code by amending Section 10G.1 to (a) correct erroneous Planning and Building Code references, (b) revise the surcharges on permits issued by the Department of Building Inspection, the Taxi Commission, the Police Department and the Department of Public Works, where such permits are subject to appeal before the Board of Appeals, (c) revise the surcharge fee on fees imposed by the Planning Department for review of permits, where such permits are subject to appeal before the Board of Appeals, and (d) make California Environmental Quality Act (CEQA) findings.

Description: Currently, the Board of Appeals collects revenues from (1) fees charged directly to those parties who request that their appeals be heard before the Board of Appeals, and (2) from surcharges on permits and fees paid to other City departments in which the decisions are potentially subject to appeal before the Board of Appeals. In June of 2003, the Board of Supervisors approved an ordinance (File 03-0916) imposing the new surcharges on permits and fees paid to other City departments in which the decisions are subject to appeal before the Board of Appeals. The proposed ordinance would amend this recently approved ordinance relating to the Board of Appeals surcharges on permits and fees paid to other City departments.

The proposed ordinance would correct erroneous Planning and Building Code references in Section 10G.1 to (1) delete two Planning and Building Code references where the City's decisions are not subject to appeal before the Board of Appeals and (2) include five additional Planning and Building Code references in which Planning and Building fees and permits are subject to appeal before the Board of Appeals.

The proposed ordinance would also revise the surcharges for the following permits and fees, where the City's decisions can be appealed to the Board of Appeals, pursuant to Charter Section 4.106:

- The surcharge on fees imposed under Planning Code Sections 351(h), 352(a), 353(a), 353(b), 353(c), and 355 would be increased by $3.96 from $5.78 to $9.74, or 68.5 percent.

- The surcharge on permits issued pursuant to Building Code Section 110: Tables 1-A, 1-F, Item 3, 1-H, 1-K, Item 8, or 1-Q, Item 5 would be increased by $3.96 from $5.78 to $9.74, or 68.5 percent.

- The surcharge on permits issued pursuant to the Public Works Code would be increased by $0.28 from $0.54 to $0.82, or 51.9 percent.

- The surcharge on permits issued pursuant to Police Code Section 2.26 would be decreased by $3.56 from $10.47 to $6.91, or 34 percent.

- The surcharge on permits issued pursuant to Police Code Section 2.26.1, pertaining to Taxi Commission permits, would be increased by $2.02 from $6.76 to $8.78, or 29.9 percent.

The subject ordinance would also add a finding that the proposed legislation is in compliance with the California Environmental Quality Act (CEQA).

Fiscal Impact:

As shown in the Attachment, provided by Ms. Noelle Simmons of the Mayor's Budget Office, the FY 2003-2004 budget assumed $336,118 of revenues from the collection of the subject surcharges on permits and fees, in which the City's decisions can be appealed to the Board of Appeals. Ms. Simmons states that because (1) the surcharges were priced incorrectly, and (2) not all fees and permits subject to appeal before the Board of Appeals were included in the previous surcharge legislation, the Board of Appeals will not realize the $336,118 of projected surcharge revenues. Instead, as outlined in the Attachment, Ms Simmons currently projects that only $127,266 of surcharge revenues will be realized in FY 2003-2004, resulting in a net projected year-end shortfall and thus required General Fund contribution of $208,852 to the Board of Appeals, if the proposed revisions to the existing surcharges on permits and fees are not approved.

If the proposed ordinance is approved, as shown in the Attachment, the net projected year-end revenue shortfall would be reduced to $92,026, assuming estimated total FY 2003-2004 surcharge revenues of $244,093. This net projected shortfall of $92,026 assumes that the proposed ordinance to revise the subject surcharges is approved and implemented by January 1, 2004, or in effect for six months in FY 2003-2004. Ms. Simmons reports that based on a full year of revenue, the proposed surcharges are projected to result in full cost recovery for the Board of Appeals beginning in FY 2004-2005, thus resulting in no need for General Fund monies in FY 2004-2005.

Comments:

1. In June of 2003, the Board of Supervisors approved an ordinance (File No. 03-0916) that added Article 10G.1 to the Administrative Code to impose a surcharge on certain fees and permits, in which the City's decisions are subject to appeal before the Board of Appeals. The proposed ordinance would amend Article 10G.1 to (1) delete two of these Planning and Building Code references, and (2) revise the surcharges on five of the fees and permits that are subject to appeal before the Board of Appeals.

Currently, Article 10G.1 includes two erroneous Planning and Building Code references pertaining to matters which are not subject to appeal before the Board of Appeals. These two references include (1) Table 1-G relating to pre-application inspections in the Building Code and (2) Section 353 relating to downtown preservation alterations and demolitions in the Planning Code. The proposed ordinance would delete those two erroneous references.

Additionally, Article 10G.1 excludes five Planning and Building Codes references pertaining to fees and permit matters which are subject to appeal before the Board of Appeals. These five references include (1) Table 1-K relating to investigation fees for work without permits in the Building Code, (2) Table 1-F relating to demolition permits in the Building Code, (3) Section 353c relating to annual limit review in the Planning Code, (4) Section 352a relating to variances in the Planning Code and (5) Section 351h relating to the Zoning Administrator determinations in the Planning Code. Ms. Simmons advises that the proposed ordinance would correct Article 10G.1 by including these five Planning and Building Code

references, which are subject to appeal before the Board of Appeals.

2. The proposed ordinance would also revise the existing surcharges, to increase the surcharges on the fees and permits imposed under the Planning Code, Building Code, Public Works Code and Police Code regarding the Taxi Commission and decrease the surcharges on permits imposed under the Police Code, as outlined in the Description Section above.

3. Mr. Robert Feldman of the Board of Appeals states that Board of Appeals fees, which the Board of Supervisors increased in May of 2003, are currently estimated to generate approximately $52,000 annually. The proposed revisions to the surcharges on the fees and permits are estimated to generate $403,341 annually for total estimated annual revenues of $455,341 ($52,000 direct fees plus $403,341 surcharge fees equals $455,341). As previously noted, it is anticipated that as a result of the proposed surcharge revisions, there would be no required General Fund contribution to the Board of Appeals beginning in FY 2004-2005.

4. As shown above, the Budget Analyst notes that the proposed surcharge revisions, provided by Ms. Simmons, are not rounded to the nearest dollar. If the Board of Supervisors wishes to increase the proposed surcharges to the requested levels, the Budget Analyst recommends that each fee be rounded to the nearest $1 increment, to minimize administrative collection difficulties. The Mayor's Budget Office concurs with this recommendation.

Recommendations:

1. In accordance with Comment No. 3, amend the proposed ordinance to round each surcharge to the nearest $1 increment.

2. Approve the proposed ordinance, as amended.

Appeals Board Surchage Revenue Shortfall
FY 03-04

Budgeted Surcharge Revenue, FY 03-04	336,118
Revenue posted as of 10/30/03 (2 months' worth)	21,211
Projected revenue, 11/01/03 - 12/31/03	21,211
Projected 3rd and 4th Q revenue assuming 1/1/04 effective date of new legislation	201,671
Total projected year-end revenue	244,093
Projected Year-end Shortfall	**(92,026)**

Projected Surcharge Revenue, absent amending legislation	127,266
Projected Year-end Shortfall, absent amending legislation	(208,852)

Item 12 – File 03-1716

Department: Airport

Item: Resolution approving the Lease Disposition and Development Agreement and Lease of Plot 9 located at San Francisco International Airport between Airis SFO, LLC and the City and County of San Francisco, acting by and through its Airport Commission.

Lessor: City and County of San Francisco, acting by and through its Airport Commission

Lessee: Airis SFO, LLC, a Delaware limited liability company and wholly-owned subsidiary of Airis Holdings, LLC established specifically for the purpose of redeveloping Plot 9. Airis Holdings, LLC specializes in the development of on-site airport cargo projects.

Location: Plot 9, the Airport's West Field Cargo Area, which is a 25.06 acre parcel containing five cargo handling and support facilities comprising 257,523 square feet constructed in 1967 and 1968, as described in Attachment I, provided by the Airport.

Total Acreage: 25.06 acres

Description: Mr. Gary Franzella of the Airport advised the Airport Commission at its November 19, 2002 meeting that the five Plot 9 cargo handling and support facilities constructed in 1967 and 1968, comprising a total of 257,523 square feet, include three of the Airport's oldest cargo buildings, "all of which are in need of redevelopment and expansion to meet future cargo needs." As stated in Attachment I,

> In order to meet future cargo handling needs and to build the air cargo business at the Airport ... [the five Plot 9] facilities must be replaced and expanded.

Therefore, under the proposed Lease Disposition and Development Agreement, all five Plot 9 cargo handling and support facilities would be demolished and replaced

with a new 634,892 square foot multi-tenant air cargo complex facility, which represents an increase of 146.5 percent or 377,369 square feet. The Airport proposes to build this project through a lease disposition and development agreement and lease model. The proposed resolution would authorize the Airport to enter into the following two agreements:

- A Lease Disposition and Development Agreement between the Airport and Airis SFO, LLC. This agreement would (a) authorize Airis SFO, LLC to redevelop Plot 9 by demolishing the five existing cargo handling and support facilities and constructing a new multi-tenant air cargo complex facility, (b) set out the conditions for the close of escrow so that the Airport can deliver the ground lease for Plot 9, known as the "Lease of Plot 9," to Airis SFO, LLC, (c) require certain diversity and prevailing wage requirements for Airis SFO, LLC and its subcontractors, (d) set out Airis SFO, LLC's financing obligations, and (e) govern what is constructed on Plot 9. The Lease Disposition and Development Agreement would terminate when construction is complete. Ms. Dorothy Schimke of the Airport advises that the Lease Disposition and Development Agreement would not in and of itself give Airis SFO, LLC any property rights with respect to Plot 9. Ms. Schimke advises that until the Lease of Plot 9 is delivered through escrow, Airis SFO, LLC could only access Plot 9 under as-needed permits issued by the Airport for specific purposes, including pre-construction environmental testing, and only for the time periods specified by the Airport. Construction would not commence until the Airport and Airis SFO, LLC enter into the Lease of Plot 9.
- If all the conditions to close escrow specified in the Lease Disposition and Development Agreement are met, the City would enter into a ground lease, known as the Lease of Plot 9, with Airis SFO, LLC comprising a 38-month construction term and a 30-year operating term (see "Term of the Lease of Plot 9" below). The Lease of Plot 9 would govern the rights and obligations of the Airport and Airis SFO, LLC with respect to the use and occupancy of Plot 9. Ms. Schimke advises that

the Lease of Plot 9 would give Airis SFO, LLC the right to occupy and build on Plot 9, and subject to Airport approval, sublease the new multi-tenant air cargo complex facility to airlines and other cargo users located at the Airport. Ms. Schimke states that the Airport would retain ownership of Plot 9.

- During the period between the close of escrow and the completion of the construction of the multi-tenant air cargo complex facility, both the Lease Disposition and Development Agreement and the Lease of Plot 9 would apply. As shown in Attachment II, provided by the Airport, the agreements specify a 38-month construction period, commencing immediately following the close of escrow, which could be extended by up to 120 days for hazardous materials remediation work if necessary. If there is any conflict between the Lease Disposition and Development Agreement and the Lease of Plot 9, the terms of the Lease Disposition and Development Agreement would prevail with respect to all matters relating to the development and construction of Plot 9. After completion of construction, the Lease Disposition and Development Agreement would terminate and the Lease of Plot 9 would govern the rights and obligations of the Airport and Airis SFO, LLC with respect to the operation and maintenance of the new multi-tenant air cargo complex facility.

Ms. Adrienne Go of the City Attorney's Office advises that under Charter Section 9.118(a), the proposed Lease of Plot 9 is subject to Board of Supervisors approval because it would generate revenues in excess of $1,000,000 and has a term of more than ten years. Ms. Go advises that the Airport has also elected to submit the companion Lease Disposition and Development Agreement to the Board of Supervisors for approval because Airport staff treats each document as integral to the other.

Projected Revenues from the Lease Disposition and Development Agreement and Lease of Plot 9:

Attachment III, provided by the Airport, contains the projected revenues to the Airport resulting from the proposed Lease Disposition and Development Agreement and Lease of Plot 9. At the end of the 30-year Operating Term under the Lease of Plot 9, the cumulative net return to the Airport and Airis SFO, LLC is estimated by the Airport to be as follows[1]:

Table 1: Net Returns to SFO and Airis SFO, LLC

Net Return Over 30 Years	Estimated Amount	Percentage of Total
Net Return to SFO		
Base Ground Rent specified in the Lease of Plot 9 payable by Airis SFO, LLC to the Airport (as explained in Attachment IV, provided by the Airport)	$150,750,659	35.8
Additional Ground Rent specified in the Lease of Plot 9 payable by Airis SFO, LLC to the Airport (as explained in Attachment IV)	11,466,915	2.8
Subtotal:	162,217,574	38.6
Net Return to Airis SFO, LLC		
Net return projected to Airis SFO, LLC	258,362,533	61.4
Subtotal:	258,362,533	61.4
TOTAL:	**$420,580,107**	**100.0**

Attachment IV, provided by the Airport, explains in detail (a) the sources for all of the above projected revenues, and (b) how the base ground rent could be adjusted in the future to ensure that the Airport is realizing fair market value.

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[1] As shown in Attachment III, the net return for (a) the Airport comprises the Base Ground Rent and the Additional Ground Rent payable by Airis SFO, LLC to the Airport, and (b) Airis SFO, LLC comprises total rental revenues less tenant payments to the Airport, debt service, and financing expenses. Ms. Schimke advises that the revenue projections do not include increases to the Base Ground Rent to reflect increases in the fair market value of Plot 9 land, as provided for under the lease in the 11th, 21st, and 26th lease years.

In addition, the revenue projections in Attachment III include indirect incremental additional (a) employee parking revenues in the amount of $20,240,596 and (b) landing fees[2] in the amount of $103,768,580 which are projected to result from the redevelopment of Plot 9. If these additional revenues are added to the revenues listed in the table above, the total net return to the Airport is projected to increase to $286,226,750, as shown in the table below:

Table 2: Net Returns to SFO and Airis SFO, LLC Inclusive of Additional Employee Parking and Landing Fee Revenues

Net Return	Estimated Amount	Percentage of Total
Net Return to SFO		
Base Ground Rent specified in the Lease of Plot 9 payable by Airis SFO, LLC to the Airport	$150,750,659	27.7
Additional Ground Rent specified in the Lease of Plot 9 payable by Airis SFO, LLC to the Airport	11,466,915	2.1
Additional employee parking revenues projected by Airis SFO, LLC payable to the Airport by tenant employees	20,240,596	3.7
Additional landing fees projected by Airis SFO,LLC payable to the Airport by operators of freighter aircraft utilizing the new multi-tenant air cargo complex facility	103,768,580	19.1
Subtotal:	286,226,750	52.6
Net Return to Airis SFO, LLC		
Net return projected to Airis SFO, LLC	258,362,533	47.4
Subtotal:	258,362,533	47.4
TOTAL:	$544,589,283	100.0

[2] Ms. Schimke advises that landing fees are the fees charged by the Airport for landings of aircraft, whether passenger or cargo planes, based on their landed weight assuming a full load.

PROPOSED LEASE DISPOSITION AND DEVELOPMENT AGREEMENT

Purpose of the Lease Disposition and Development Agreement:

The proposed resolution would authorize a new Lease Disposition and Development Agreement between the Airport and Airis SFO, LLC. As detailed in Attachment I, under this Lease Disposition and Development Agreement, Airis SFO, LLC would develop the 25.06 acres of Plot 9, including:

- Demolition of the five facilities currently located on Plot 9.
- Construction of an approximately 634,892 square feet multi-tenant air cargo complex facility.
- Improvements to the existing aircraft apron area, and construction of new perimeter security fencing and guard stations.

After the close of escrow, Airis SFO, LLC would manage and relocate the tenants of the five cargo handling and support facilities located on Plot 9. Currently, there are nine tenants generating annual rental revenue to the Airport of $2,871,225 (see Attachment V, provided by the Airport, and Comment Nos. 12 - 14).

As stated in Attachment I,

> Airis estimates its total Project cost, including financing costs, to be $217,259,178. These costs would be the sole responsibility of Airis. With the exception of certain costs related to remediation of existing hazardous materials,[3] which the Airport may be required to fund (see Attachment VI), the Project would be constructed at no cost to the Airport.

[3] The Airport has estimated the maximum potential Plot 9 hazardous materials remediation costs to be approximately $8,000,000, as noted in Comment No. 21.

Term of the Lease Disposition and Development Agreement:

As shown in Attachment II, provided by the Airport, the term of the Lease Disposition and Development Agreement extends from the "Effective Date," projected to be January 1, 2004, following approval by the Board of Supervisors and the Mayor. The term of the Lease Disposition and Development Agreement continues through the close of escrow and commencement of construction, currently projected as September 1, 2004, through to completion of construction, currently projected to be November 1, 2007 (approximately three years and ten months). Allowing an additional six months for contingencies, the "Guaranteed Completion Date" would be May 1, 2008.

Ms. Schimke advises that if Airis SFO, LLC does not meet the Guaranteed Completion Date, Airis SFO, LLC is liable to pay the Airport liquidated damages in the amount of $5,000 per day for the first 90 days of delay beyond the Guaranteed Completion Date, and $10,000 per day thereafter, subject to the limitations described in Attachment IV.

Fees Payable by Airis SFO, LLC to the Airport under the Lease Disposition and Development Agreement:

Attachment IV explains in detail the following fees payable by Airis SFO, LLC to the Airport under the proposed Lease Disposition and Development Agreement:

- The Lease Disposition and Development Agreement Fee of $300,000, refundable to Airis SFO, LLC upon successful completion of the construction of the new multi-tenant air cargo complex facility.
- The Finance Fee to cover the Airport's costs of oversight and review of Airis SFO, LLC's use of special purpose tax-exempt financing. As stated in Attachment IV, Airis SFO, LLC would make an initial Finance Fee deposit of $250,000.

- The Lease Disposition and Development Agreement Extension Fees, non-refundable, but payable only if escrow is not closed by the Target Date. The Lease Disposition and Development Agreement Extension Fees are in the amounts of (a) $40,000 per month for the first 12 months, and (b) $60,000 per month for the second 12 months.
- Liquidated damages for delay beyond the Guaranteed Completion Date in the amount of $5,000 per day for the first 90 days of delay, and $10,000 per day thereafter.
- The Lease Disposition and Development Agreement Termination Fee of up to $1,000,000, payable only if Airis SFO, LLC terminates the Lease Disposition and Development Agreement before the close of escrow.

None of the fees payable by Airis SFO, LLC to the Airport under the proposed Lease Disposition and Development Agreement represent guaranteed new revenues for the Airport. The Lease Disposition and Development Agreement Fee is refundable. The Finance Fee and the Lease Disposition and Development Agreement Termination Fee represent cost recovery for the Airport. The Lease Disposition and Development Agreement Extension Fees are contingent upon delays in the close of escrow, and liquidated damages are contingent upon construction delays.

PROPOSED LEASE OF PLOT 9

Purpose of the Lease of Plot 9: Plot 9 would be delivered to Airis SFO, LLC on an "as is with all faults" basis through a Lease of Plot 9. The proposed resolution would authorize a new 30-year Lease of Plot 9 between the Airport and Airis SFO, LLC. Under the proposed Lease of Plot 9, Airis SFO, LLC, would operate and maintain the multi-tenant air cargo complex facility to be constructed by Airis SFO, LLC under the Lease Disposition and Development Agreement, as described above.

Term of the Lease of Plot 9: As shown in Attachment II, there are two components to the Lease of Plot 9's term:

- A 38-month "Construction Term" which is the construction period specified in the Lease Disposition and Development Agreement, projected to commence on September 1, 2004 and conclude on November 1, 2007.
- A 30-year "Operating Term," projected to commence on November 1, 2007 and conclude on October 31, 2037.

According to Ms. Schimke, at the termination of the leasehold, which is currently projected to be on October 31, 2037, the title to any Plot 9 improvements to which the Airport does not already hold title reverts to the Airport.

Rent and Deposit Payable by Airis SFO, LLC to the Airport under the Lease of Plot 9:

As explained in detail in Attachment IV, the rent and deposit provisions of the proposed Lease of Plot 9 would be structured as summarized below:

- During the Construction Term, projected to commence on September 1, 2004 and conclude on November 1, 2007, Airis SFO, LLC would pay the Airport a "Base Ground Rent" of $2,741,572 per year ($228,464 per month). As stated in Attachment IV, "Base Ground Rent is based on a per-acre rate of $109,400 per year, which is on the high end of acreage rates for comparable Airport lands, as set through fair market appraisals over the past five years (1998 through 2003) and subsequently adjusted pursuant to the CPI."
- During the Operating Term, projected to commence on November 1, 2007 and conclude on October 31, 2037, Airis SFO, LLC would pay the Airport a "Base Ground Rent" commencing at $2,741,572 per year adjusted to reflect the Consumer Price Index (CPI) increases during the Construction Term, and adjusted thereafter by (a) the CPI annually, and (b) "Fair Market Value Adjustments" in the 11th, 21st, and 26th lease years to reflect increases in the value of the Plot 9 land.

- During the Operating Term, Airis SFO, LLC would pay the Airport an "Additional Ground Rent" assessed as a percentage of gross revenues according to the schedule of gross revenues contained in Attachment IV.
- Airis SFO, LLC would pay the Airport 15 percent of all "derivatives income" received by Airis SFO, LLC from interest rate swap and hedging arrangements, securities forward purchase and sale agreements, master repurchase agreements, and any other derivative, hedging, swap, or forward arrangements connected with debt refinancing or equity investment.[4] Ms. Schimke advises that the Airport would only participate in derivatives income gains and profits, and therefore would not share in any losses or related costs incurred by Airis SFO, LLC. The Airport has not estimated derivatives income revenues payable by Airis SFO, LLC to the Airport because such revenues would be entirely dependent on the future financing decisions made by Airis SFO, LLC.
- Airis SFO, LLC would pay the Airport a refundable deposit equivalent to six months of the Base Ground Rent for each lease year, subject to annual adjustment based on increases to the Base Ground Rent paid by Airis SFO, LLC to the Airport. The deposit amount payable in the first year of the Base Ground Rent would be $1,370,786.

As shown in Table 1 above, the Airport projects over 30 years that Airis SFO, LLC will pay the Airport (a) $150,750,659 in total Base Ground Rent revenues, and (b) $11,466,915 in total Additional Ground Rent revenues, for a total of $162,217,574.

[4] Ms. Schimke advises that Airis SFO, LLC is proposing a special facilities financing for the project. As part of that financing, Airis SFO, LLC would likely have some opportunity to enter into financial derivative instruments, such as interest rate swaps, which may earn money for Airis SFO, LLC. Given that the financing is being done for a project on Airport land, to the extent that Airis SFO, LLC makes money from a derivatives instrument, the City should receive a portion of such revenues, according to Ms. Schimke. Airis SFO, LLC has agreed to pay the City 15 percent of such additional revenues.

Comments:

Existing Plot 9 Facilities

1. Attachment I contains a table providing detailed information about each of the five existing cargo handling and support facilities located at Plot 9 in terms of square footage, construction date, and the financing method used to construct the facilities. Ms. Schimke advises that the original cost of each of these five cargo handling and support facilities located at Plot 9 is not readily available to the Airport. As stated above, the Airport anticipates that Airis SFO, LLC would demolish all five of these existing cargo handling and support facilities and replace them with a new 634,892 square foot multi-tenant air cargo complex facility.

Financial Analysis

2. As explained in Attachment I, the Airport wishes to develop Plot 9 through a third-party developer, using the combined Lease Disposition and Development Agreement and Lease of Plot 9, rather than financing and developing Plot 9 itself. The Budget Analyst notes that this is the first lease disposition and development agreement that the Airport has entered into because large-scale developments at the Airport have traditionally been built and financed by Airport tenants or funded by the Airport through the issuance of revenue bonds. The Airport advises in Attachment I that it wishes to use the Lease Disposition and Development Agreement and Lease of Plot 9 because, as stated in Attachment I:

> Since 2000, national and international developments affecting the Bay Area economy and the aviation industry have threatened the Airport's financial well-being. Through strict cost cutting measures and innovative revenue enhancement programs, the Airport has managed to maintain its economic health and financial ratings. Nevertheless, given the current economic climate it would be imprudent for the Airport to increase its bonded indebtedness, and therefore its costs, at this time. Using a third-party developer allows the Airport to improve and expand its cargo

handling facilities without a capital investment that would significantly increase its costs.

The Airport proposes to use the City's standard method of contracting for third-party development of City property, which is through a lease disposition and development agreement ... and lease. The [Lease Disposition and Development Agreement] and lease provide for the third-party developer to fund the project and assume all the project risks while providing the Airport with new facilities and an income stream without adding to its costs.

3. Ms. Monique Moyer of the Mayor's Office of Public Finance advises that the Airport is currently on negative credit watch because it has experienced such a significant decrease in business over the last two years due to the Bay Area's economic situation. Mr. Kevin Kone of the Airport advises that 51.7 percent of the Airport's budget is currently devoted to debt service which Ms. Moyer advises greatly constrains the Airport's financial flexibility. Further, United Airlines, which Mr. Kone advises accounts for 31 percent of the Airport's total revenues, is currently operating under Chapter 11 bankruptcy provisions. Ms. Moyer considers that because the new multi-tenant air cargo complex facility would benefit the airline tenants, rather than benefit the individual Airport patron, there are limited public purpose reasons for the Airport to use what limited debt capacity it currently has to construct the proposed new multi-tenant air cargo complex facility. However, because the new multi-tenant air cargo complex facility would generate additional revenues for the Airport, the redevelopment of Plot 9 does generate additional revenues for the Airport. Therefore, Ms. Moyer considers that it is appropriate for the Airport to transfer the risk of redeveloping Plot 9 to a third party developer under the proposed Lease Disposition and Development Agreement and Lease of Plot 9.

4. In response to the Budget Analyst's request for the Airport's estimates of what it would cost the Airport to finance and develop Plot 9 itself, as compared to what it would cost Airis SFO, LLC to finance and develop Plot 9

under the proposed resolution, Ms. Schimke advised that the Airport has not performed such a financial analysis. In the professional judgment of the Budget Analyst, such a comparative analysis of alternate funding models, and comparisons of the projected costs and benefits, reviewed by an appropriately qualified and independent third party, is crucial to determine what the optimum funding model is for such a development.

5. Further, in the Budget Analyst's *Management Audit of the San Francisco International Airport – Airfield Development Bureau Runway Reconfiguration Project* (May 21, 2003), under Recommendation 1.4 the Budget Analyst recommended that the Airport "Develop a Long-term Capital Plan and submit that plan to the Board of Supervisors for review and approval" and that such a plan should be developed prior to using Airport Revenue Bond proceeds for capital projects (Recommendation 1.1). In the professional judgment of the Budget Analyst, the redevelopment of Plot 9 should be part of such a Long-term Capital Plan. In response, Ms. Schimke advises that:

> The Airport is not willing to take on further debt and risk to finance this project at this time, given the uncertainty of the aviation industry. While the Airport might wish to consider a similar project for bond financing under better financial conditions, private development of the project at this time would poise the Airport to benefit from an improving market rather than losing cargo business to other sites because we cannot accommodate the expanding market.

<u>Request for Proposals/Qualifications Process</u>

6. Attachment VII, provided by the Airport, describes in detail the Request for Qualifications/Proposals process used by the Airport, which resulted in the selection of Airis Holdings, LLC, the parent company of Airis SFO, LLC, as the most responsive and qualified bidder. The Budget Analyst notes that Airis Holdings, LLC was <u>not</u> rated as the Number 1 proposal by the Airport's review

panels during the Request for Qualifications/Proposals process, and that the Airport Director supported the review panel's original recommendation favoring AMB Property Corporation, and not Airis Holdings, LLC, as summarized below.

7. On June 19, 2002, Airis Holdings, LLC received a score of 89.0 points for its qualifications, which placed it third out of four submittals evaluated by Ms. Judith Blackwell (the City Purchaser), Mr. Leo Fermin (the Airport's Finance Director), and Mr. Matthew Mead (an independent consultant). Both AMB Property Corporation (95.3 points) and San Francisco International Air Cargo Center, LLC, whose subsequent proposal was deemed by Airport staff to be non-responsive because, as stated in Attachment VII, "a central element of the proposal was a hotel, as opposed to the state-of-the-art cargo facility sought through the RFP" (96.7 points), received higher scores.

8. On October 31, 2002, of the two proposals considered by a review panel,[5] the proposal submitted by Airis Holdings, LLC received an average score of 72.6 points, compared with the proposal received by AMB Property Corporation which received an average score of 84.5 points. In the Airport Director's November 19, 2002 report to the Airport Commission, he stated:

> With only one exception, AMB received a higher score from each panelist ... The Panel's review and assessment of the two proposals is consistent with that of Airport staff.

On that basis, the Airport Director recommended that the Airport Commission authorize exclusive negotiations with AMB Property Corporation. During the Airport Commission meeting of November 19, 2002, the Airport Director stated:

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[5] The review panel comprised Mr. Bruce Swanson (Parsons Aviation), Mr. Bryan Enarson (San Diego International Airport), Ms. Blackwell (City Purchaser), Ms. Nita Mizushima (the Port's Chief Harbor Engineer), Mr. Don Whittaker (Airport), and Mr. Michael Varner (Airport). The review panel subsequently reconvened to re-score the two proposals, less one panelist, Mr. Enarson, who was unable to attend.

> My recommendation [to authorize exclusive negotiations with AMB Property Corporation] is based upon the selection committee's review. I feel it was a fair review. A representative panel. And that is my recommendation.

However, due to the introduction of additional information, at the Airport Commission meeting of November 19, 2002, during proposer testimony regarding financing, labor plans, specifics of the proposed development, and MBE participation, the Airport Commission requested Airport staff to prepare an alternative motion for the Airport Commission to authorize exclusive negotiations with Airis Holdings, LLC, so that the Airport Commission could determine its preference at a future meeting.

9. On November 27, 2002, Mr. Franzella submitted a report to the Airport Director analyzing the issues raised at the November 19, 2002 Airport Commission meeting. Mr. Franzella reported the following conclusions:

- The equity-backed financing proposed by AMB Property Corporation "is more efficient and presents less risk to the project and the Airport" than the project-based leasehold financing proposed by Airis Holdings, LLC. This was the consensus opinion of Airport staff, the Airport's financial consultant (Mr. Jack Tamagni, Managing Director of Lazard Freres & Company), and outside bond counsel, Orrick, Herrington & Sutcliffe.
- The AMB Property Corporation proposal "represents the lesser risk" of revenue shortfalls or cost overruns because it comprised (a) significantly lower subtenant charges, (b) a stronger marketing plan in terms of understanding the local market, depth, and detail, and (c) a flexible phasing plan to time the later phases to coincide with more favorable market conditions.
- Both proposals (a) would produce a quality building at a conservatively estimated cost, (b) incorporate the Airport's desire to maximize use of the site, and (c) indicate a willingness to meet all new Transportation

Security Administration security requirements. However, the AMB Property Corporation proposal "demonstrates a better understanding of local cargo landside flow characteristics and a more efficient approach to truck traffic flow. Both proposals require refinement of aircraft ingress/egress plans."

- Whereas AMB Property Corporation "has developed a well thought out phasing plan," Airis Holdings, LLC "does not appear to have developed a clear, workable plan and has not indicated its final completion date."
- Both Airis Holdings, LLC and AMB Property Corporation "have compiled experienced, competent teams capable of executing the proposed development."

10. On January 7, 2003, the proposal and presentations given by Airis Holdings, LLC were re-scored by the same panel, except for Mr. Enarson as shown in Footnote No. 5, resulting in an average score of 82.6 points, while the proposal and presentations given by AMB Property Corporation was re-scored by that panel, resulting in an average score of 83.0 points, resulting in AMB Property Corporation still having a higher score than Airis Holdings, LLC. Ms. Schimke advises that there was no change in the scoring criteria and the weightings between the first and second scoring rounds. What changed was the panelists' assessments after hearing the proposers' testimony and seeing the additional information provided by the proposers, according to Ms. Schimke. A January 23, 2003 report prepared by John F. Brown Company for the Airport Director to summarize the scoring process, stated:

> Between the October and January sessions, the number of panelists selecting Airis and AMB for recommendation to the [Airport] Commission remained unchanged [after excluding the sixth panel member who scored in October]. Airis was again selected by one (1) panelist and AMB was again selected by four (4) panelists. Between the two sessions, however, the overall average scores converged near 83.

The John F. Brown Company report further noted that "Airis had a stronger team with greater on-tarmac experience than [the panelists] had earlier realized." In the Airport Director's January 15, 2003 report to the Airport Commission, he appended three resolutions: the first authorized exclusive negotiations with AMB Property Corporation; the second authorized exclusive negotiations with Airis Holdings, LLC; and the third rejected both proposals. The Airport Director did not state a preference between these three resolutions.

11. Despite Airis Holding, LLC's lower scores throughout the Request for Qualifications/Proposals process, on January 30, 2003, Airis Holdings, LLC was selected by the Airport Commission "based upon Commissioners' personal assessments of how well each proposal addressed the project goals," as stated in Attachment VII.

Existing Tenants

12. As explained in Attachment V, provided by the Airport, the existing five cargo handling and support facilities on Plot 9 are occupied by nine tenants who currently pay total annual revenues to the Airport of $2,871,225. Ms. Schimke advises that the cumulative revenues generated by the various Plot 9 tenants over the last three full fiscal years are as follows:

Table 3: Revenues From Tenants of the Five Existing Plot 9 Air Cargo and Support Facilities

Fiscal Year	Total Revenues
FY 2000-2001	$3,828,402
FY 2001-2002	$4,102,956
FY 2002-2003	$3,951,755

Ms. Schimke advises that over the last three years, the annual revenues from tenants of the five existing Plot 9

air cargo and support facilities have fluctuated due to the following changes in the tenant mix:

- In December of 2000, United Airlines commenced mail handling in Cargo Building 7 due to closure of the United States Postal Service Air Mail Facility for remodeling and expansion.
- In March of 2002, Alaska Airlines moved out of Cargo Building 7 to consolidate its cargo operations elsewhere.
- In January of 2003, Air Canada relocated to smaller space within Cargo Building 7.
- In April of 2003, United Airlines moved out of Cargo Building 7 when the United States Postal Service Air Mail Facility reopened and Cargo Building 7 was no longer needed for mail handling.
- In August of 2003, Northwest Airlines' Lease of Plot 9A expired and Northwest Airlines downsized within Cargo Building 6.

13. As shown in Table 4 below, the total annual revenues to the Airport from the existing nine Plot 9 tenants, in the amount of $2,871,225, are higher than the projected return to the Airport to be paid by Airis SFO, LLC for the first four years of the Operating Term of the Lease of Plot 9 (inclusive of additional employee parking and additional landing fees), as shown in Attachment III.

Table 4: Comparison Between Revenues From Existing Tenants and Projected Revenues From Airis SFO, LLC

Annual Revenues Currently Paid by the Airport's Existing Nine Plot 9 Tenants	Projected Revenues Payable by Airis SFO, LLC to the Airport (Current Dollars)	Excess of Revenues Currently Being Paid to Airport from the Airport's Nine Existing Tenants Over the Projected Revenues to be Paid to the Airport by Airis
$2,871,225	FY 2006-2007: $2,605,581	$265,644
$2,871,225	FY 2007-2008: $2,684,778	$186,447
$2,871,225	FY 2008-2009: $2,765,322	$105,903
$2,871,225	FY 2009-2010: $2,848,281	$22,944
$2,871,225	FY 2010-2011: $2,933,730	(62,505)

14. As can be seen in Table 4 above, from FY 2006-2007 through FY 2009-2010, the Airport's existing Plot 9 tenants, based on current payments to the Airport, would be paying between $22,944 and $265,644 more annually than the Airport would receive under the proposed Lease Disposition and Development Agreement and Lease of Plot 9 with Airis SFO, LLC. Beginning in FY 2010-2011, the annual revenues payable under the proposed Lease Disposition and Development Agreement and Lease of Plot 9 with Airis SFO, LLC are expected to exceed the annual revenues presently received by the Airport.

15. As explained in Attachment V, at the close of escrow, Airis SFO, LLC would assume all of the City's rights and obligations under the existing leases and permits. Ms. Schimke advises that Section 2.2 of the Lease Disposition and Development Agreement requires that Airis SFO, LLC "be responsible for the relocation and accommodation of tenants or permittees" during the construction phase when existing tenants would be temporarily relocated.[6] As stated in Attachment V,

[6] With regard to tenant rents during the transition period, Lease of Plot 9, Section 5.7(c)(i) states "Airline sublessee rents for space in existing buildings prior to Completion of the Initial Improvements shall not exceed the greater of (A) rates per square foot in effect on the Effective Date

> It is Airis' intention to construct a temporary facility to house Existing Tenants that will be displaced by such demolition, until the new facilities are available. The temporary facility will be demolished once the new facilities are available for occupancy.

Ms. Schimke advises that the Section 2.2 requirement to accommodate tenants during the construction phase could be met in a variety of different ways, such as the consolidation of tenants into existing buildings and the phased construction of the new facilities. However, in order to make construction more efficient, Airis SFO, LLC proposes to build a temporary facility instead. Ms. Schimke advises that there is no language in the Lease Disposition and Development Agreement requiring that such a temporary facility would be constructed by Airis SFO, LLC.

16. Ms. Schimke advises that while it is Airis' intention to build a temporary facility large enough to house all of the existing tenants, should individual tenants not wish to use the temporary facility, the Airport might be able to house them in existing cargo space if any is vacant. As stated in Attachment V, while the Airport would require Airis SFO, LLC to offer existing tenants space in the new multi-tenant air cargo complex facility, the existing tenants have no obligation to lease space there. Attachment V explains (a) leasing priorities for space in the new multi-tenant air cargo complex facility, and (b) how the space allocation methodology would provide for changes in, and reallocation of, subtenant space allocations as subtenants' needs change.

Lease Disposition and Development Agreement

17. With the exception of certain hazardous materials remediation costs which the Airport may be required to fund (see Comment Nos. 20 - 21), Airis SFO, LLC is solely responsible for securing all of the financing for the project

as they may be adjusted pursuant to CPI *or* (B) the published rate(s) per square foot for comparable space as provided in the Schedule of Airport Rates & Charges for the then-current fiscal year.

which is projected to cost $217,259,178 and, as stated in Attachment I:

> ... the Airport will bear no liability relating thereto. [...] The Airport is willing to allow Airis SFO, LLC to pursue tax-exempt bond financing subject to:
>
> - Airport review and approval of the financing plan;
> - Airport oversight of the preparation of financing documents through the issuance of bonds;
> - Payment by Airis of all the actual costs of the Airport's review and oversight, including attorney fees, third-party financial advisor fees, and Airport staff costs (the "Finance Fee"); and
> - Pre-payment by Airis SFO, LLC of $250,000 deposit[7] toward the Finance Fee (over two installments within 10 and 90 days, respectively, after the award of DDA) and paying fees in excess of that deposit when invoiced by the Airport.

18. Airis SFO, LLC considers that the sale of tax-exempt bonds would be "the most cost-effective and least expensive means of financing airport cargo facilities" for the nine reasons outlined in the memorandum from Mr. Ron Factor of Airis Holding, LLC which is included in Attachment I. Mr. Factor states that:

> Aside from government grants and interest free loans, which are rarely available for air cargo projects and which will not be used for this project, there is no lower cost method of privately financing the project than ... tax-exempt bonds.

Ms. Schimke advises that such tax-exempt bond financing would not be subject to Board of Supervisors approval because the City is neither the obligor nor the issuer of the bonds.

19. As stated in Attachment I:

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[7] Ms. Schimke advises that if the Airport's proposed Lease Disposition and Development Agreement with Airis SFO, LLC is terminated before the Airport's actual costs reach $250,000, the deposit in excess of the actual costs is refundable. Otherwise, the deposit is non-refundable.

> The proposed [Lease Disposition and Development Agreement] requires the developer [Airis SFO, LLC] to maintain (a) a net worth of not less than $3,000,000 for the period prior to the close of escrow, which may be satisfied by a $3,000,000 standby irrevocable letter of credit,[8] and (b) a net worth of not less than the higher of $15,000,000 or 10 percent of the project construction cost for the 38-month Construction Term after the close of escrow. While the most recent pro forma provided by Airis indicates that an equity contribution[9] of $19,660,550 is planned [see Attachment III], Airis SFO, LLC is a sole purpose entity that currently has little or no assets. Therefore, either (a) Airis SFO, LLC must maintain the required net worth (presumably through an equity contribution as described above) or (b) Airis' obligations under the [Lease Disposition and Development Agreement] must be guaranteed by an affiliate guarantor which meets the net worth requirements stated above. The [Lease Disposition and Development Agreement] requires that the Guarantor "absolutely, irrevocably, and unconditionally guarantees to City the full, complete and punctual observance, performance and satisfaction of all of the obligations, duties, covenants and agreements of [Airis SFO, LLC] under the [Lease Disposition and Development Agreement].

20. Attachment VI, provided by the Airport, explains the hazardous materials remediation component of the proposed Lease Disposition and Development Agreement which covers Airis SFO, LLC's responsibilities for all costs associated with: (a) the abatement of hazardous materials, including asbestos, contained in the existing buildings to be demolished, and (b) the remediation of contaminated soil and groundwater at the sites of new construction and where necessary to comply with

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[8] According to Ms. Schimke, a standby irrevocable letter of credit is, in this context, a commercial instrument issued by a bank to secure the obligations of the developer (Airis SFO, LLC).
[9] According to Ms. Schimke, this equity contribution could be made by a variety of investors, including Airis Holdings, LLC or third-party investors.

Regional Water Quality Control Board requirements. As stated in Attachment VI:

> ... the Airport has estimated the maximum potential environmental costs to be approximately $8 Million. The two primary responsible parties are American Airlines and Northwest Airlines, which have been ordered by the RWQCB [Regional Water Quality Control Board] to clean up the site. There may be additional responsible parties, which will become evident as the Project construction progresses and the ground conditions are better known.
>
> American Airlines and Northwest Airlines have both confirmed in writing their respective intentions to remediate the site to the RWQCB Order 99-045 standards within 120 days of the San Francisco Board of Supervisors approval of the Project. If either of these existing tenants does not complete such hazardous materials remediation prior to the close of escrow, [Airis SFO, LLC] is responsible to complete hazardous materials remediation at the Airport's cost, subject to the Airport's prior approval, and may extend its construction schedule by up to 120 days as necessary to complete such remediation. [Airis SFO, LLC] will be responsible to perform the remediation of any hazardous materials unknown at this time as necessary to comply with RWQCB Order 99-045, at the Airport's cost, subject to the Airport's prior approval. At any time the Airport's reimbursement costs for hazardous materials remediation is estimated to exceed $25,000,000, then the Airport may terminate the Project, provided it reimburses Airis SFO, LLC for all actual design and construction costs paid by Airis SFO, LLC to date. [...]
>
> [Airis SFO, LLC] has the right to pursue recovery directly from the responsible parties for those hazardous materials remediation costs that are not eligible for reimbursement by the Airport.

> [...] The Airport is currently pursuing all known responsible tenants for environmental costs through legal action.

21. According to Mr. Leo Fermin of the Airport, if and when it is determined that the Airport would fund clean-up costs, then the Airport would seek a reappropriation of existing unspent capital funds. As stated above, the Airport has estimated the maximum potential Plot 9 hazardous materials remediation costs to be approximately $8,000,000. Therefore, the Airport's maximum liability would be approximately $8,000,000. However, as also stated above, tenants have stated their intention to undertake hazardous materials remediation on their sites, and the Airport would have appropriate legal remedies if they fail to do so, according to Ms. Schimke. All hazardous materials remediation investments made by tenants would reduce the Airport's liability.

<u>Lease of Plot 9</u>

22. As explained in Attachment I, the Airport would refrain from developing new cargo space that would compete with the new multi-tenant air cargo complex facility to be built under the proposed Lease Disposition and Development Agreement and Lease of Plot 9:

> ... until the conclusion of the Project's "Stabilization Period" which extends until the earliest of (a) 90 percent occupancy of the Project's cargo warehouse space, (b) five years after construction is completed, or (c) five years after the Guaranteed Completion Date ... This provision does not prevent the Airport from re-leasing existing cargo space which may become vacant during the Stabilization Period.

23. As explained in Attachment I, if at any time after the tenth anniversary of the Lease of Plot 9's Operating Term commencement, the Airport chooses to convert Plot 9 to non-cargo uses:

> ... the Airport may purchase Airis' remaining interest in the Lease [of Plot 9] by payment to Airis of the value of the property at the time of purchase. The value of the property at the time of purchase is determined on the basis of discounted projected cash flow plus a 10 percent premium. The 10 percent premium is added to the purchase price to give Airis and its subtenants greater assurance that their lease and occupancy rights would be terminated only if the Airport had a strong need to do so. In the event of a "catastrophic need" (as defined in the Lease) Airport could exercise this option prior to the tenth anniversary of the Lease Operating Term.

Ms. Schimke advises that the Airport is not able to estimate the cost of purchasing Airis SFO, LLC's remaining interest in the Lease of Plot 9 because the purchase price would be based on the discounted value of the anticipated cash flow, which depends upon too many variables to determine in advance. Ms. Schimke advises that the most important variables would be (a) the success of the project, in terms of the occupancy rates and rents achieved, and (b) the timing of the exercise of the option in terms of how many years' revenues were left for Airis SFO, LLC to earn under the Lease of Plot 9.

24. As explained in Attachment I, immediately adjacent to the subject 25.06 acres of Plot 9 is a 4.36 acre parcel currently leased by United Airlines for its United Express commuter terminal (the UAX Parcel). As stated in Attachment I:

> The Airport has determined that the highest and best use of the UAX Parcel is cargo support; therefore, in the event the UAX Parcel becomes available during the Lease term, the Airport would dedicate its use to aircraft parking in support of cargo operations. The development specifications would depend upon the cargo market and the tenant mix in Project at the time such development is undertaken. Such development may be performed by the Airport if conditions at the time indicate that it is most favorable for the Airport to do so. However, if the Airport chooses instead to

have the UAX Parcel developed by a third party, then Airis would have the first right to negotiate for such development rights.

Ms. Schimke advises that if the Airport chooses Airis SFO, LLC or another third party to redevelop the UAX Parcel, an Agreement between the Airport and the developer would likely be subject to Board of Supervisors approval because either the Airport's agreement with Airis SFO, LLC would likely require amendment, or a new agreement would likely trigger the provisions of Charter Section 9.118(a).

Impacts of the Redevelopment of Plot 9

25. As explained in Attachment I, the San Francisco International Airport Master Plan, approved by the Airport Commission on November 3, 1992, included cargo development. The Planning Department's Office of Environmental Review has reviewed the proposed redevelopment of Plot 9, the Airport's West Field Cargo Area, and concluded that:

> ... such redevelopment would (a) fall within the scope of the Master Plan Program Environmental Impact Report, (b) not cause significant environmental impacts not already identified in the Master Plan Program Environmental Impact Report, (c) not require new mitigation measures, and (d) not require a supplemental environmental impact report or negative declaration.

26. As shown in Table 2 above, the Airport anticipates significant additional landing fees as a result of this proposed project. Ms. Schimke advises that this projected increase in landing fees is based upon Airis SFO, LLC's projection of an average of two additional Boeing 747-400 freighter aircraft landings and takeoffs per day. Ms. Schimke advises that while the revenue impacts of these two additional landings would be significant, the effect of two additional landings per day would not be significant with regard to runway capacity or air traffic delays,

particularly given that air cargo operations traditionally occur at off-peak hours.

Budget Analyst's Conclusions:

Based on an extensive review of the proposed Lease Disposition and Development Agreement and Lease of Plot 9, the Budget Analyst concludes:

- The Airport has not performed a financial analysis of what it would cost the Airport to finance and develop Plot 9 itself, as compared to what it would cost Airis SFO, LLC to finance and develop Plot 9 under the proposed Lease Disposition and Development Agreement and Lease of Plot 9. Such a comparative analysis of alternate funding models, and comparisons of the projected costs and benefits, reviewed by an appropriately qualified and independent third party, is crucial to determine what the optimum funding model is for such a development.

- Prior to authorizing this project to proceed, the redevelopment of Plot 9 should first be recommended by the Airport Commission to be included in the Airport's Long-term Capital Plan. This would be consistent with recommendations contained in the Budget Analyst's *Management Audit of the San Francisco International Airport – Airfield Development Bureau Runway Reconfiguration Project* (Recommendation 1.4) in that projects of this nature should be included in the Airport's Long-term Capital Plan.

- Airis Holdings, LLC (the parent company of Airis SFO, LLC) was <u>not</u> rated as the Number 1 proposal by the Airport's review panels during the Airport's Request for Qualifications/Proposals process, and the Airport Director supported the review panel's original recommendation favoring AMB Property Corporation. Airis Holdings, LLC consistently received scores from the Airport's review panels which were less than the scores received by AMB Property Corporation from the Airport's review panels. Subsequent to such scoring by the Airport's review panels and subsequent to the

original recommendation of the Airport Director in favor of AMB Property Corporation, Airis Holdings, LLC was selected by the Airport Commission "based upon Commissioners' personal assessments of how well each proposal addressed the project goals," according to the Airport.

Recommendations:

1. Disapprove the proposed resolution.

2. Request the Airport to develop a comparative financial analysis, reviewed by an appropriately qualified and independent third party, showing the comparative costs and benefits between (a) the Airport redeveloping Plot 9 itself using its own financing, and (b) redevelopment by an outside developer under a Lease Disposition and Development Agreement and Lease of Plot 9.

3. Request the Airport to present its comparative financial analysis to the Board of Supervisors Finance and Audits Committee.

4. If, based on the Airport's comparative financial analysis, the Airport Commission determines that third party development of Plot 9 is the best financial option, request the Airport Commission to undertake a new Request for Qualifications/Proposals process.

San Francisco International Airport

ATTACHMENT I

West Field Cargo Redevelopment Project

Project Summary

The Need
The West Field Cargo Area at San Francisco International Airport {***"the Airport"***) is comprised of a parcel of approximately 25.06 acres of land (***"Plot 9")*** that houses five aging facilities currently used for cargo handling and support. These buildings are:

Facility	Sq. Ft.	When Built	Built By	Financing Method
Cargo Building 5 Building 602	72,200 6,575	1967	American Airlines	Funded by American Airlines
Cargo Building 6 Building 624	109,322 6,625	1967	Pan American World Airways	Funded by Pan Am, through SFAIC Bonds[1]
Cargo Building 7	62,801	1968	Airport	[information not readily available]

[1] San Francisco Airport Improvement Corporation is a conduit entity that was set up in the 1960's to provide a means for private parties to finance airport improvements through sale of tax-exempt bonds. This conduit is no longer available.

In order to meet future cargo handling needs and to build the air cargo business at the Airport, which growth will benefit the economics of the San Francisco Bay Area as well as the Airport, these facilities must be replaced and expanded. For reasons outlined below, the Airport Commission sought a third party to redevelop the site with a state-of-the-art cargo facility.

Third-Party Development
Since 2000, national and international developments affecting the Bay Area economy and the aviation industry have threatened the Airport's financial well-being. Through strict cost cutting measures and innovative revenue enhancement programs, the Airport has managed to maintain its economic health and financial ratings. Nevertheless, given the current economic climate it would be imprudent for the Airport to increase its bonded indebtedness, and therefore its costs, at this time. Using a third-party developer allows the Airport to improve and expand its cargo handling facilities without a capital investment that would significantly increase its costs.

The Airport proposes to use the City's standard method of contracting for third-party development of City property, which is through a lease disposition and development

agreement (*"DDA"*) and lease. The DDA and lease provide for the third-party developer to fund the project and assume all the project risks while providing the Airport with new facilities and an income stream without adding to its costs. By means of a public selection process (fully described in Attachment VII) the Airport Commission selected Airis SFO, LLC, a wholly-owned subsidiary of Airis Holdings, LLC (*"Airis"*), as the third-party developer for Plot 9.

Project Description
The Airis redevelopment of Plot 9 (*"the Project"*) would include:

- Demolition of the five aging facilities described above
- Design, financing, and construction of an approximately 634,892 square feet multi-tenant air cargo complex, including
  - approximately 472,615 square feet of cargo space on two levels, and supporting second tier roadway infrastructure
  - approximately 147,336 square feet of multi-story office space
  - approximately 10,871 square feet of ground service equipment maintenance space
  - approximately 2,690 square feet of security buildings
  - approximately 1,380 square feet of trucker rest stations.
- Improvements to the existing aircraft apron area to provide for simultaneous handling of three widebody freighter aircraft
- Other site improvements, including perimeter security fencing, and guard stations

Airis estimates its total Project cost, including financing costs, to be $217,259,178. These costs would be the sole responsibility of Airis. With the exception of certain costs related to remediation of existing hazardous materials, which the Airport may be required to fund (See Attachment VI), the Project would be constructed at no cost to the Airport.

Airis expects to lease space in the new air cargo complex to international and domestic airlines for cargo handling, freight forwarders, couriers, and other related companies. In order to support Project lease-up, the Airport would refrain from developing new cargo space until the conclusion of the Project's "Stabilization Period" which extends until the earliest of (a) 90 percent occupancy of the Project's cargo warehouse space, (b) five years after construction is completed, or (c) five years after the Guaranteed Completion Date (see below). This provision does not prevent the Airport from re-leasing existing cargo space that may become vacant during the Stabilization Period.

The San Francisco International Airport Master Plan, approved by the Airport Commission on November 3, 1992, included cargo development. The Planning Department's Office of Environmental Review has reviewed the proposed Project, and concluded that such redevelopment would (a) fall within the scope of the Master Plan Program Environmental Impact Report, (b) not cause significant environmental impacts not already identified in the Master Plan Program Environmental Impact Report, (c) not

require new mitigation measures, and (d) not require a supplemental environmental impact report or negative declaration.

Schedule.

The proposed DDA provides for Airis to design the project, obtain all necessary regulatory approvals and finance the project prior to delivery of the Lease of Plot 9 (***"the Lease"***) through escrow. Immediately after the close of escrow (currently projected to be September 1, 2004) Airis is expected to commence construction.[1] Airis has 38 months to complete construction of the Project. This construction period may be extended by up to 120 days for any pipeline remediation work not previously performed by existing Plot 9 tenants. Assuming close of escrow on September 1, 2004 and the completion of pipeline remediation prior to the close of escrow, as expected, the completion of construction would be projected as October 31, 2007. Allowing an additional six months for contingencies, the "Guaranteed Completion Date" would be April 30, 2008.

Financing

Airis has sole responsibility for financing the Project, and the Airport will bear no liability relating thereto. Airis proposes to use special purpose tax-exempt bond financing because, as explained in the attached letter from Airis principal, Mr. Ron Factor, Airis believes the sale of such bonds provides substantial savings over conventional bank financing. The Airport is willing to allow Airis SFO, LLC to pursue tax-exempt bond financing subject to:

- Airport review and approval of the financing plan;
- Airport oversight of the preparation of financing documents through the issuance of bonds;
- Payment by Airis of all the actual costs of the Airport's review and oversight, including attorney fees, third-party financial advisor fees, and Airport staff costs (the ***"Finance Fee"***); and
- Pre-payment by Airis SFO, LLC of $250,000 toward the Finance Fee (over two installments within 10 and 90 days, respectively, after the award of DDA) and paying fees in excess of that deposit when invoiced by the Airport.

Guaranty

The proposed DDA requires the developer to maintain (a) a net worth of not less than $3,000,000 for the period prior to the close of escrow, which may be satisfied by a $3,000,000 standby irrevocable letter of credit, and (b) a net worth of not less than the higher of $15,000,000 or 10 percent of the project construction cost for the 38-month Construction Term after the close of escrow. While the most recent pro forma provided by Airis indicates that an equity contribution of $19,660,550 is planned, Airis SFO, LLC is a sole purpose entity that currently has little or no assets. Therefore, either (a) Airis must maintain the required net worth (presumably through an equity contribution as

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[1] Airis has designated the following Project Development Team to develop Plot 9: M. Arthur Gensler Jr. & Associates, Inc. (Architect), Middlebrook & Louie (Engineer), and a joint venture of M.A. Mortensen Company (General Contractors) and Luster National (Construction Manager). The DDA requires Airis SFO, LLC and its subcontractors to achieve a 30 percent participation goal for local businesses, including minority-owned, and women-owned businesses.

described above) or (b) Airis' obligations under the DDA must be guaranteed by an affiliate guarantor that meets the net worth requirements stated above. The DDA requires that the Guarantor "absolutely, irrevocably, and unconditionally guarantees to City the full, complete and punctual observance, performance and satisfaction of all of the obligations, duties, covenants and agreements of [Airis] under the [DDA]."

Future Development

Immediately adjacent to the subject 25.06 acres is a 4.36-acre parcel currently rented by United Airlines for its United Express commuter terminal (***the "UAX Parcel"***). The Airport has determined that the highest and best use of the UAX Parcel is cargo support; therefore, in the event the UAX Parcel becomes available during the Lease term, the Airport would dedicate its use to aircraft parking in support of cargo operations. The development specifications would depend upon the cargo market and the tenant mix in Project at the time such development is undertaken. Such development may be performed by the Airport if conditions at the time indicate that it is most favorable for the Airport to do so. However, if the Airport chooses instead to have the UAX Parcel developed by a third party, then Airis would have the first right to negotiate for such development rights.

Purchase Option

In order to retain its flexibility to respond to changing aviation needs, the Airport has required that the Lease include a purchase option that allows the Airport to recapture the premises for other uses. If at any time after the tenth year of the Lease Operating Term, the Airport chooses to convert Plot 9 to non-cargo uses, the Airport may purchase Airis' remaining interest in the Lease by payment to Airis of the value of the property at the time of purchase. The value of the property at the time of purchase is determined on the basis of discounted projected cash flow plus a 10 percent premium. The 10 percent premium is added to the purchase price to give Airis and its subtenants greater assurance that their lease and occupancy rights would be terminated only if the Airport had a strong need to do so. In the event of a "catastrophic need" (as defined in the Lease) Airport could exercise this option prior to the tenth anniversary of the Lease Operating Term.

Attachment

Via Email (dorothy.schimke@flysfo.com)

November 10, 2003

Dorothy Schimke
Senior Property Manager
San Francisco International Airport
P.O. Box 8097
San Francisco, CA 94128

AIRIS

Atlanta

Houston

Los Angeles

New York

Stockholm

Re: Financing of the West Field Cargo Redevelopment Area Project

Dear Dorothy:

The Airis Model for financing is the most cost effective and least expensive means of financing airport cargo facilities. Tax-exempt bond financing, when compared to conventional bank financing over a 33-year project term provides very substantial savings, which allows for more competitive rental rates, which in turn drives higher occupancy rates. Airis has used its model for $337,685,000 of bond financing for its five existing large on-airport cargo projects at Newark, Miami (two projects), Louisville, and JFK, where most recently Airis bond financed $160 million for the development of a 434,000 square foot facility. All projects currently enjoy occupancy rates approaching 100%.

The Airis Model is the most cost effective because:

1. The Airis Model uses tax-exempt bonds in a "one-step" financing process, pursuant to which permanent financing is in place prior to the commencement of construction. Because the permanent financing is in place prior to the commencement of construction, the project's cost is protected from the unknown and potentially higher cost of refinancing an interim construction loan into a permanent loan several years later.

2. This type of financing can also be tailored to the project's needs by, for example, having a capitalized interest period continue through most of the initial lease-up, allowing the project more economic freedom until it is stabilized. This type of tailoring is not available in the conventional debt market.

3. Most of the funds required to design and construct the facility will be raised through the sale of long-term (30+ year) tax-exempt bonds. These longer terms are not available in the conventional debt market.

4. The purchase of the bond insurance elevates the project "BBB-"[1] rating to "AAA". As a consequence of the bond insurance raising the bond rating, the bonds are offered at a significantly lower interest rate, thereby lowering the financing cost of the project.

5. We currently anticipate that the interest rate will be approximately 5%. Long-term tax-exempt debt financing represents the lowest cost of funds available in the market for this type of project.

6. Interest payable to the bondholders as well as ground rent payable to the Airport during construction will be capitalized with proceeds of the same tax-exempt bond financing – again, the lowest cost method of carrying the project during construction.

7. "AAA"-rated bond insurance eliminates any default risk for the Airport or City. City's reputation will never be exposed to public relations risk since insured bonds by nature will never default

8. The Airis method for obtaining low cost project financing is entirely private, insulating the City's credit rating from the performance of this project and its bonding capacity from the cost of this project, while protecting the bondholders and guaranteeing the ground rent to the City.

9. By using tax-exempt bonds to pay for most of the cost of the project, Airis will minimize the need for project equity, currently estimated to be 10%. This will keep project financing costs lower because equity typically requires a rate of return of at least three times that of tax-exempt debt.

AIRI
One Riverwa
Suite 163
Houston, Texas 7705
US

[1] It is important to note that the Airis Project will on its own merits accomplish an investment grade credit rating ("BBB-" or "Baa3") without the enhancement of bond insurance, and does not in any way rely on the Airport or City's credit or bonding capacity.

Ms. Schimke
November 10, 2003
Page 2 of 2

AIRIS

Aside from government grants and interest free loans, which are rarely available for air cargo projects and which will not be used for this project, there is no lower cost method of privately financing the project than the Airis proposal that relies to the maximum extent possible on tax-exempt bonds.

Thank you for the opportunity to clarify the Airis project finance model. Please contact me with any questions or concerns.

Sincerely,

Ron Factor

San Francisco International Airport

ATTACHMENT II

West Field Cargo Redevelopment Project
Project Schedule

The following is the anticipated schedule for the West Field Cargo Redevelopment Project. All Projected Dates are based upon (1) Award of the project occurring in December 2003, and (2) all Actions being performed on the earliest date required pursuant to the Lease Disposition and Development Agreement ("DDA") and/or the Lease of Plot 9 ("Lease"), as applicable, without any of the extensions that may be permitted by the terms of said DDA and Lease.

Action	Requirement per DDA/Lease	Projected Date
Board of Supervisors and Mayor's Approval of DDA/Lease (***"Award"***)		December 2003
DDA Term Commences (***"Effective Date"***)	Upon execution and delivery following Award, and payment of DDA Fee.	January 1, 2004
Pre-Close of Escrow Period	Developer must perform activities to meet conditions of Close of Escrow, including: - Obtain all necessary regulatory approvals - Preliminary design - Obtain building permits for initial construction, demolition, and/or site remediation - Obtain financing	January – August 2004
Close of Escrow - Lease executed - Site delivered	***"Target Date"*** is eight months after the Effective Date. Pre-Close of Escrow period may be extended up to 24 months upon payment of Extension Fees (see Attachment IV)	September 1, 2004
Outside Close Date - Liquidated damages accrue - DDA terminates if closing cannot occur within 12 months of Outside Close Date.	32 months after Effective Date, subject to Litigation Force Majeure or Excused Delay (see Attachment IV (unless mutually extended by the parties)	September 1, 2006

Note: All Projected Dates from this point forward assume Close of Escrow on the Target Date		
Commencement of Lease Construction Term	Upon Close of Escrow	September 1, 2004
Commencement of Construction	No later than 60 days after the Close of Escrow	November 1, 2004
Construction Complete	No later than 38 months after Close of Escrow plus actual time (not to exceed 120 days) required for Developer to complete any pipeline remediation not performed by existing tenants (See Attachment VI)	November 1, 2007
Guaranteed Completion Date	No later than 44 months after Close of Escrow, plus actual time (not to exceed 120 days) required for Developer to complete pipeline remediation not performed by existing tenants (see above)	May 1, 2008
Commencement of Lease Operating Term	The earlier of completion of construction or 38 months following commencement of the Construction Term	November 1, 2007

ATTACHMENT III

West Field Cargo Redevelopment Project

Projected Revenues

Direct Revenues
The West Field Cargo Redevelopment Project is conservatively estimated to provide direct revenues, paid by Airis SFO, LLC, in excess of $162,000,000 over the life of the project. As demonstrated in the attached pro forma, these direct revenues include:

Base Ground Rent	$150,750,659
Additional Ground Rent	11,466,915
Total Over Term	$162,217,573

Indirect Incremental Revenues
In addition to the revenues paid by Airis SFO, LLC, the project is expected to generate additional employee parking fees paid directly to the Airport by the workers employed at the project by Airis or its subtenants, as well as additional landing fees paid by air cargo companies serving freighters at the project. As demonstrated in the attached pro forma, these indirect incremental revenues include:

Employee Parking	$ 20,240,596
Aircraft Landing Fees	103,768,580
Total Incremental Revenues	$124,009,176

Pro Forma Assumptions

- **Term**: Three Year Construction Term; 30-year Operating Term
- **Ground Rent During Construction:** $2,741,572 per year
- **Base Ground Rent During Operating Term:** Initially $2,995,790 (Construction Rent increased 9.3% to reflect cumulative increase in CPI during Construction Term)
- **Annual CPI (average over term):** 3% per year applied to Base Ground Lease (during Operating Term), subtenant rents, operating expenses
- **Additional Ground Rent:** The percentages of gross revenues as shown in Attachment IV

NOTE: In the interest of conservatism, the pro forma does not show fair market value increases to the Base Ground Rent as provided for under the lease. In the event market value of the land only increases at a faster rate than the CPI, as has historically been the case, the Base Ground Rent would be increased from the 11th lease year forward, significantly increasing the total return to the City.

Attachment

SFO West Field Cargo Area Redevelopment

					1	2	3	4	5	6	7	8	8
		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Rents													
Total space rental revenue		[redacted]	[redacted]	[redacted]	13,553,016	14,114,713	14,697,914	15,303,405	15,831,998	18,584,530	17,082,068	17,584,528	18,122,364
Plus: Aircraft parking fees		[redacted]	[redacted]	[redacted]	722,700	744,381	766,712	789,714	813,405	837,807	882,942	888,830	815,495
Total revenues for gross percentage rent calculation					14,275,716	14,859,094	15,464,627	16,093,118	18,745,401	17,422,337	17,945,007	18,483,358	19,037,858
Tenant Reimbursements					6,821,576	7,112,233	7,414,189	7,727,862	8,053,682	8,392,097	8,643,860	8,903,178	9,170,271
Reference: Ground Rent Flat @ 3.0%	19,633,807	2,741,572	2,741,572	2,741,572	2,995,790	3,085,663	3,178,233	3,273,580	3,371,788	3,472,941	3,577,130	3,684,444	3,784,977
Percentage rent	yes	[redacted]	[redacted]	[redacted]	142,757	148,591	154,646	160,931	167,454	178,447	188,900	199,667	210,757
Total revenues		[redacted]	[redacted]	[redacted]	21,393,762	22,303,446	23,243,970	24,189,035	25,124,973	26,084,600	26,845,680	27,629,592	28,437,021
Total operating expenses		[redacted]	[redacted]	[redacted]	7,331,010	7,598,598	7,875,643	8,162,473	8,459,424	8,771,069	9,039,301	8,315,581	8,600,148
Operating Income		[redacted]	[redacted]	[redacted]	14,062,752	14,704,848	15,368,327	16,026,562	16,665,549	17,313,531	17,806,378	18,314,011	18,836,873
Debt Service & Financing Expense		-	-	-	12,798,171	12,942,206	13,089,212	11,873,641	11,282,758	11,438,470	11,592,478	11,753,826	11,911,403
Cash flow after debt service		-	-	-	1,264,580	1,762,642	2,279,115	4,152,922	5,382,791	5,875,061	8,213,902	6,580,185	8,825,470

Return to SFO

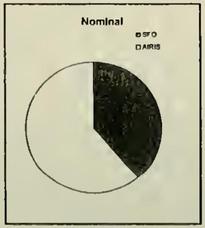
					1	2	3	4	5	6	7	8	9
		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Ground rent		2,741.572	2,741,572	2,741,572	2,995,790	3,085,663	3,178,233	3,273,580	3,371,788	3,472,941	3,577,130	3,684,444	3,794,977
Percentage Rent		-	-	-	142,757	148,591	154,646	160,931	167,454	178,447	188,900	199,667	210,757
Total return to SFO		2,741.572	2,741,572	2,741,572	3,138,547	3,234,254	3,332,880	3,434,512	3,539,242	3,651,388	3,766,030	3,884,111	4,005,734
Jan 1, 2004 Present value	6.00%	2,586.389	2,439,989	2,301,877	2,486,023	2,416,823	2,349,549	2,284,146	2,220,564	2,161,251	2,102,931	2,046,101	1,990,727
Total 2004 PV to SFO through 2036	59,099,698												
2004 PV to SFO, first 10 years of opera	29,323,147												
	SFO % Share	100%	100%	100%	71%	65%	59%	45%	40%	38%	38%	37%	37%
Indirect Incremental revenue not included in SFO Return													
Additional employee parking	500	[redacted]	[redacted]	[redacted]	425,442	438,206	451,352	464,892	478,839	493,204	508,000	523,240	538,938
Additional freighter landing fees	730	[redacted]	[redacted]	[redacted]	2,181,139	2,246,573	2,313,970	2,383,389	2,454,891	2,528,538	2,604,394	2,682,525	2,763,001
Total		[redacted]	[redacted]	[redacted]	2,606,581	2,684,778	2,765,322	2,848,281	2,933,730	3,021,742	3,112,394	3,205,766	3,301,839

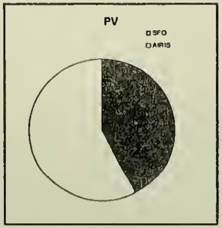
Return to AIRIS

		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
AIRIS equity contribution, Jan 1, 2004	19,660,500												
Residual CF after debt service		-	-	-	1,264,580	1,762,642	2,279,115	4,152,922	5,382,791	5,875,061	6,213,902	6,560,185	6,925,470
Jan 1, 2004 Present value	6.00%	-	-	-	1,001,666	1,317,149	1,606,686	2,761,930	3,377,229	3,477,439	3,469,810	3,455,823	3,441,746
Total 2004 PV to AIRIS through 2036	79,817,567												
2004 PV to AIRIS first 10 years of opera	27,334,112												
AIRIS IRR	16.02%												

Ground rent + percentage rent -- through 2036

	Nominal	% share		PV	% share
SFO	$162,217,573	38.57%	SFO	$59,099,698	42.54%
AIRIS	$258,362,533	61.43%	AIRIS	$79,817,567	57.46%
	$420,580,106			$138,917,265	





SFO West Field Cargo Area Redev

		10	11	12	13	14	15	16	17	18	19	20
		2016	2017	2018	2019	2020	2021	2C22	2023	2024	2025	2026
Rents												
Total space rental revenue		18,666,035	19,226,016	19,802,796	20,396,880	21,008,786	21,639,050	22,288,221	22,956,868	23,645,574	24,354,941	25,085,590
Plus: Aircraft parking fees		942,960	971,248	1,000,386	1,030,397	1,061,309	1,093,149	1,125,943	1,159,721	1,194,513	1,230,348	1,267,259
Total revenues for gross percentage rent calculation		19,608,994	20,197,264	20,803,182	21,427,277	22,070,096	22,732,199	23,414,165	24,116,589	24,840,087	25,585,290	26,352,848
Tenant Reimbursements		9,445,379	9,728,740	10,020,603	10,321,221	10,630,857	10,949,783	11,278,277	11,616,625	11,965,124	12,324,077	12,693,800
Reference: Ground Rent Flat @ 3.0%	19,633,807	3,908,826	4,026,091	4,146,874	4,271,280	4,399,418	4,531,401	4,667,343	4,807,363	4,951,584	5,100,132	5,253,135
Percentage rent	yes	222,180	235,918	254,095	272,818	292,103	311,966	332,425	353,498	375,203	403,412	434,114
Total revenues		29,268,673	30,127,247	31,015,606	31,930,616	32,873,076	33,843,810	34,843,666	35,873,517	36,934,264	38,032,686	39,165,708
Total operating expenses		9,893,252	10,671,866	11,003,122	11,344,315	11,695,745	12,057,717	13,116,849	13,521,455	13,938,198	14,373,297	14,823,096
Operating Income		19,375,421	19,455,381	20,012,485	20,586,301	21,177,331	21,786,093	21,726,816	22,352,062	22,998,066	23,659,389	24,342,612
Debt Service & Financing Expense		12,070,926	12,242,030	12,407,581	12,571,975	12,740,418	12,910,452	13,088,896	13,263,197	13,437,992	13,611,127	13,788,644
Cash flow after debt service		7,304,494	7,213,351	7,604,904	8,014,326	8,436,913	8,875,640	8,637,920	9,088,865	9,558,074	10,048,262	10,553,969

Return to SFO

		10	11	12	13	14	15	16	17	18	19	20
		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Ground rent		3,908,826	4,026,091	4,146,874	4,271,280	4,399,418	4,531,401	4,667,343	4,807,363	4,951,584	5,100,132	5,253,135
Percentage Rent		222,180	235,918	254,095	272,818	292,103	311,966	332,425	353,498	375,203	403,412	434,114
Total return to SFO		4,131,006	4,262,009	4,400,969	4,544,098	4,691,521	4,843,367	4,999,768	5,160,861	5,326,787	5,503,543	5,687,249
Jan 1, 2004 Present value	8.00%	1,936,777	1,885,091	1,836,371	1,788,767	1,742,264	1,696,843	1,652,488	1,609,181	1,566,903	1,527,261	1,488,906
Total 2004 PV to SFO through 2038	59,099,698											
2004 PV to SFO, first 10 years of opera	29,323,147											
SFO % Share		36%	37%	37%	36%	36%	35%	37%	36%	36%	35%	35%
Indirect Incremental revenue not included in SFO Return												
Additional employee parking	500	555,106	571,759	588,912	606,579	624,776	643,520	662,825	682,710	703,191	724,287	746,016
Additional freighter landing fees	730	2,845,891	2,931,268	3,019,206	3,109,782	3,203,076	3,299,168	3,398,143	3,500,087	3,605,090	3,713,243	3,824,640
Total		3,400,997	3,503,027	3,608,118	3,716,361	3,827,852	3,942,688	4,060,968	4,182,797	4,308,281	4,437,530	4,570,656

Return to AIRIS

		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
AIRIS equity contribution, Jan 1, 2004	19,660,500											
Residual CF after debt service		7,304,494	7,213,351	7,604,904	8,014,326	8,436,913	8,875,640	8,637,920	9,088,865	9,558,074	10,048,262	10,553,969
Jan 1, 2004 Present value	6.00%	3,424,632	3,190,472	3,173,261	3,154,810	3,133,169	3,109,525	2,854,945	2,833,951	2,811,559	2,788,444	2,783,000
Total 2004 PV to AIRIS through 2036	79,817,567											
2004 PV to AIRIS first 10 years of opera	27,334,112											
AIRIS IRR	16.02%											

SFO West Field Cargo Area Rede\

		21 2027	22 2028	23 2029	24 2030	25 2031	26 2032	27 2033	28 2034	29 2035	30 2038	Totals
Rents												
Total space rental revenue		25,838,157	26,613,302	27,411,701	28,234,052	29,081,074	29,953,506	30,852,111	31,777,674	32,731,005	33,712,935	682,292,654
Plus: Aircraft parking fees		1,305,277	1,344,435	1,384,768	1,426,311	1,469,100	1,513,173	1,558,569	1,605,328	1,653,485	1,703,090	34,382,753
Total revenues for gross percentage rent calculation		27,143,434	27,957,737	28,796,469	29,660,363	30,550,174	31,466,679	32,410,680	33,383,000	34,384,490	35,416,025	712,643,559
Tenant Reimbursements		13,074,614	13,466,852	13,870,858	14,286,983	14,715,593	15,157,061	15,611,772	16,080,126	16,562,529	17,059,405	343,099,224
Reference: Ground Rent Flat @ 3.0%	19,633,807	5,410,730	5,573,051	5,740,243	5,912,450	6,089,824	6,272,518	6,460,694	6,654,515	6,854,150	7,059,775	150,750,659
Percentage rent	yes	465,737	498,309	531,859	566,415	607,509	653,334	700,534	749,150	799,224	854,961	11,466,915
Total revenues		40,332,721	41,534,744	42,772,828	44,048,055	45,367,039	46,729,092	48,132,006	49,577,008	51,065,360	51,717,239	1,068,661,758
Total operating expenses		17,099,866	17,631,463	18,179,007	18,742,977	19,329,368	21,588,122	22,263,366	22,958,867	23,675,233	24,417,250	418,477,881
Operating Income		23,232,855	23,903,281	24,593,821	25,305,077	26,037,671	25,140,971	25,868,640	26,618,141	27,390,127	27,299,989	641,959,361
Debt Service & Financing Expense		13,995,374	14,177,169	14,358,495	14,539,543	14,728,359	14,938,492	15,124,719	15,315,265	15,529,972	74,037	383,596,828
Cash flow after debt service		9,237,481	9,726,112	10,235,326	10,765,534	11,309,312	10,202,479	10,743,921	11,302,876	11,860,155	27,225,951	258,362,533

Return to SFO

		21 2027	22 2028	23 2029	24 2030	25 2031	26 2032	27 2033	28 2034	29 2035	30 2036	30-year Total
Ground rent		5,410,730	5,573,051	5,740,243	5,912,450	6,089,824	6,272,518	6,460,694	6,654,515	6,854,150	7,059,775	150,750,659
Percentage Rent		465,737	498,309	531,859	566,415	607,509	653,334	700,534	749,150	799,224	854,961	11,466,915
Total return to SFO		5,876,467	6,071,361	6,272,102	6,478,865	6,697,332	6,925,852	7,161,228	7,403,665	7,653,375	7,914,736	162,217,573
Jan 1, 2004 Present value	6.00%	1,451,361	1,414,619	1,378,671	1,343,509	1,310,200	1,278,213	1,246,842	1,216,088	1,185,947	1,157,025	59,099,698
Total 2004 PV to SFO through 2036	59,099,698											
2004 PV to SFO, first 10 years of opera	29,323,147											
	SFO % Share	39%	38%	38%	38%	37%	40%	40%	40%	39%	23%	
Indirect Incremental revenue not included in SFO Return												
Additional employee parking	500	768,396	791,448	815,191	839,647	864,837	890,782	917,505	945,030	973,381	1,002,583	20,240,596
Additional freighter landing fees	730	3,939,379	4,057,560	4,179,287	4,304,666	4,433,806	4,566,820	4,703,825	4,844,939	4,990,288	5,139,998	103,768,580
Total		4,707,775	4,849,009	4,994,479	5,144,313	5,298,643	5,457,602	5,621,330	5,789,970	5,963,669	6,142,579	124,009,176

Return to AIRIS

		2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	Total
AIRIS equity contribution, Jan 1, 2004	19,660,500											
Residual CF after debt service		9,237,481	9,726,112	10,235,326	10,765,534	11,309,312	10,202,479	10,743,921	11,302,876	11,860,155	27,225,951	258,362,533
Jan 1, 2004 Present value	6.00%	2,281,460	2,266,171	2,249,827	2,232,427	2,212,442	1,882,936	1,870,626	1,856,552	1,837,819	3,980,059	79,817,567
Total 2004 PV to AIRIS through 2036	79,817,567											
2004 PV to AIRIS first 10 years of opera	27,334,112											
AIRIS IRR	16.02%											

San Francisco International Airport

ATTACHMENT IV

West Field Cargo Redevelopment Project

Fees and Rents Payable by Airis SFO, LLC

Lease Disposition and Development Agreement ("DDA")

- **DDA Fee.** Airis SFO, LLC ("Developer") shall pay a DDA fee of $300,000 for the right to develop the project. $100,000 of that fee was paid by Developer as a deposit prior to the opening of exclusive negotiations. The remaining $200,000 is payable on or before the effective date of the DDA. The entire $300,000 DDA fee is refundable to the Developer upon successful completion of construction.

- **Finance Fee.** Developer's use of special purpose tax-exempt financing is subject to Airport review, approval and oversight during the preparation of financing documents through bond issuance. Developer shall pay, as a Finance Fee, all actual costs of such oversight/review, including attorney fees, third-party financial advisor fees and staff costs. Developer shall make an initial deposit of $250,000 in two installments, within 10 days and 30 days respectively, of the award of the DDA. There is no cap on the Finance Fee.

- **DDA Extension Fees.** In the event the developer is not prepared to close escrow within eight months of the DDA effective date (the "Target Date"), the escrow period may be extended by the developer's payment of a nonrefundable extension fee for each month after the Target Date required for the Developer to meet the conditions for close of escrow. The DDA extension fee shall be $40,000 per month for the first twelve months extension after the Target Date and $60,000 per month for the second twelve months extension after the Target Date. These fees would not be payable in the event of an "Excused Delay," defined as (a) an event of default by the City, (b) an uncured title defect, or (c) the failure, through no fault of Airis SFO, LLC, of the Regional Water Quality Board to approve any pending permits necessary in order for Airis SFO, LLC to commence construction or demolition, despite Airis SFO, LLC's diligent efforts to obtain such permit(s).

- **Litigation Force Majeure.** In the event of a Litigation Force Majeure[1] beyond the above 24-month extension the non-refundable extension fee would be $30,000 per month, for up to an additional 24 months, unless such 24-month limitation is waived by both parties to the Lease Disposition and Development Agreement in each of their respective Sole Discretion.

- **Liquidated Damages for Delay Beyond the Guaranteed Completion Date.** If construction is not complete by the Guaranteed Completion Date (a date no later than 44 months after close of escrow), subject to Force Majeure, City default, or an extension of up to 120 days for the actual time required for Developer to perform pipeline remediation work on the site, Developer shall pay the Airport non-refundable liquidated damages in the amount of $5,000 per day for the first 90 days of delay, and $10,000 per day thereafter.

- **DDA Termination Fee.** In the event the DDA terminates before close of escrow for any reason other than City default or uncured title defect, Developer shall pay City's actual third-party fees and costs incurred from and after February 12, 2003 (commencement of exclusive negotiations), up to $1,000,000, inclusive of Finance Fees to that date (described above).

Lease of Plot 9

Rent during Construction Term.

- **Base Ground Rent**. $2,741,572 per year, payable monthly in advance, commencing with site turnover (commencement of the Construction Term). Base Ground Rent is based on a per-acre rate of $109,400 per year, which is on the high end of acreage rates for comparable Airport lands, as set through fair market appraisals over the past five years (1998 through 2003) and subsequently adjusted pursuant to the CPI.

Rent during Operating Term.

- **Base Ground Rent.** Initially, $2,741,572 per year as adjusted to reflect CPI increases during the Construction Term, with subsequent adjustments as outlined below.

[1] As stated in Section 13.1(c) of the Lease Disposition and Development Agreement, "litigation force majeure" includes any legal action brought by a third party which seeks to challenge the validity of any action taken by the City in connection with the project.

- **Additional Ground Rent** assessed as the following percentages of annual Gross Revenues (as Gross Revenues is defined in the Lease):

Gross Revenues	% to Airport
$ 0.01 to $17,000,000	1
$17,000,001 to $20,000,000	2
$20,000,001 to $25,000,000	3
$25,000,001 to $30,000,000	4
$30,000,001 to $35,000,000	5
$35,000,001 to $40,000,000	6
$40,000,001 to $45,000,000	7
$45,000,001 to $50,000,000	8
$50,000,001 to $55,000,000	9
$55,000,001 to $60,000,000	10
$60,000,001 to $65,000,000	11
$65,000,001 to $70,000,000	12
$70,000,001 to $75,000,000	13
$75,000,001 to $80,000,000	14
$80,000,001 or above	15

The above percentages were determined by negotiation between the Airport and Developer, pursuant to the terms of the RFP. Developer originally proposed to pay the Airport a percentage of net profits, but due to the subjectivity of determining profit, the Airport required that the Additional Ground Rent be based on gross revenues. The Additional Ground Rent is conservatively projected to earn the Airport $11,466,915 over the term of the Lease.

- **Derivative Income.** 15 percent of all derivatives income received by Developer from interest rate swap and hedging arrangements, securities forward purchase and sale agreements, master repurchase agreements, and any other derivative, hedging, swap, or forward arrangements connected with debt refinancing or equity investment.

- **Adjustments to Base Ground Rent (during Operating Term only):**
  - Annual CPI adjustments, within a range of 2 and 5 percent per year, except for years in which there is a fair market value (FMV) Adjustment as described below.
  - FMV adjustments for the 11th, 21st, and 26th lease years. FMV shall be determined by an independent appraiser mutually selected by the parties. Should the parties be unable to agree upon an acceptable appraiser, each party shall select an appraiser who would in turn select a third appraiser. The third appraiser's determination of FMV shall be conclusive. In order to encourage long-term subtenancy, that portion of the 11th-year FMV adjustment attributable to space initially sublet for 10 years or more shall be temporarily deferred, to be phased in as such long-term tenancies terminate, but in no case later than the 16th lease year.

- **Deposit.** Airis SFO, LLC would pay the Airport a deposit equivalent to six months of the Base Ground Rent for each lease year, subject to annual upwards adjustment to coincide with the adjustments to Base Ground Rent described above.

San Francisco International Airport

ATTACHMENT V

West Field Cargo Redevelopment Project

Existing Tenants

Composition of Existing Tenants
The existing facilities in the West Field Cargo Area currently house a number of tenants (***"Existing Tenants"***), all under month-to-month permits (***"Existing Leases"***). The following table describes the Existing Tenants as of this date, and the annual rent due from them pursuant to their permits:

Tenant	Location	Sq. Ft.	Annual Rent ($)
Air Canada	Cargo Building 7	11,466	$ 194,922
American Airlines	Cargo Building 5	72,200	$ 1,227,400
GlobeGround	Cargo Building 6	1,675	$ 21,775
	Building 624	1,500	$ 25,500
KLM	Cargo Building 7	15,515	$ 263,755
Northwest Airlines	Cargo Building 6	47,905	$ 814,385
	Building 624	800	$ 13,600
Northwest Credit Union	Cargo Building 6	970	$ 16,490
Prime Flight	Cargo Building 6	3,465	$ 45,045
Swissport	Building 602	6,575	$ 76,993
US Airways	Cargo Building 7	10,080	$ 171,360
Total Revenue			**$ 2,871,225**

The composition of Existing Tenants may change during the term of the DDA up to the time of Close of Escrow, as (1) any of the Existing Leases may be terminated upon 30-day notice by either party, and (2) the Airport may enter into additional leases or permits for space within those facilities (***"Lease Changes"***) provided such leasing or permitting does not adversely impact the proposed project. For example, the Airport is currently in discussions with Continental Airlines and DHL Airways regarding potential use of 35,000 and 3,000 square feet respectively. Such occupancy, if negotiations are finalized, would generate an additional $646,000 per year in revenue to the Airport up to Close of Escrow. Upon Close of Escrow, Airis SFO, LLC (*"Airis"*) shall assume all Existing Leases (including Lease Changes), and shall be responsible for the relocation and

accommodation of the Existing Tenants as necessary to complete the development of the new air cargo complex (*"the Project"*).

Accommodation of Existing Tenants
In accordance with its development proposal, Airis plans to demolish the facilities currently existing on the site before commencing construction of the Project. It is Airis' intention to construct a temporary facility to house Existing Tenants that will be displaced by such demolition, until the new facilities are available. The temporary facility will be demolished once the new facilities are available for occupancy. While Existing Tenants shall have first priority to lease space in the new cargo facilities, they have no obligation to enter into such leases; therefore, once the new facilities are ready for occupancy, Existing Tenants will be required to relocate either into the new facilities or off-site.

Allocation of Cargo Space within New Facilities
Airis shall offer space within the new facilities in accordance with the following priorities:

(a) Existing Tenants.
(b) On-Airport tenants requiring expansion.
(c) Domestic and international passenger and cargo airlines, and other related users now conducting off-Airport cargo operations in the San Francisco Area.
(d) Domestic and international passenger and cargo airlines, and other related users not currently serving the San Francisco Area.

In order to retain flexibility to respond to changes in the cargo market, Airis intends to include provisions in each sublease that permit the subleased cargo warehouse space to be reduced and/or relocated, if:

(a) Airis or City determines in good faith that (1) there has occurred a significant shift in market share of one or more subtenants using or desiring to use cargo warehouse space at the Project, or (2) there is a need to facilitate the entry of one or more new cargo warehouse tenants to maximize the facilities at the Airport;
(b) Airis and City have reasonably determined that there is no other available cargo warehouse space at the Airport to accommodate market demand;
(c) the reduction or relocation will not prevent the affected subtenant from continuing its operations in substantially the same manner as it had immediately prior to such reduction or relocation.

In order to ensure full utilization of sublet cargo space, Airis intends to require each cargo facility subtenant to handle, during any 2-year period, no less than one metric ton of cargo per square foot subleased, and in the event a subtenant has not met such utilization requirements, may require such subtenant to surrender its underutilized space.

San Francisco International Airport

ATTACHMENT VI

West Field Cargo Redevelopment Project

Environmental Remediation

Scope of Remediation. Pursuant to the terms of the proposed Lease Disposition and Development Agreement (***"DDA"***), Airis SFO, LLC (***"Developer"***) is responsible for any hazardous materials remediation required to execute its development plan. This responsibility includes (a) the abatement of hazardous materials contained in the existing buildings to be demolished, and (b) the remediation of contaminated soil and groundwater at the sites of new construction and where necessary to comply with Regional Water Quality Control Board (***"RWQCB"***) requirements.

Various investigations performed by the Airport and its tenants have confirmed the presence of petroleum hydrocarbons, volatile organic compounds, and related heavy metals in the soil and the groundwater on the Project site. The contamination is due to fuel spills, leakage of fuel hydrant systems, historical industrial practices and background conditions of the fill material. The extent of the soil and the groundwater remediation will be governed by RWQCB Order 99-045.

Remediation Costs and Responsible Parties. Based upon analysis of the investigation reports and Developer's excavation plans, the Airport has estimated the maximum potential environmental costs to be approximately $8 Million. The two primary responsible parties are American Airlines and Northwest Airlines, which have been ordered by the RWQCB to clean up the site. There may be additional responsible parties, which will become evident as the Project construction progresses and the ground conditions are better known.

American Airlines and Northwest Airlines have both confirmed in writing their respective intentions to remediate the site to the RWQCB Order 99-045 standards within 120 days of the San Francisco Board of Supervisors approval of the Project. If either of these existing tenants does not complete such hazardous materials remediation prior to the close of escrow, Developer is responsible to complete hazardous materials remediation at the Airport's cost, subject to the Airport's prior approval, and may extend its construction schedule by up to 120 days as necessary to complete such remediation. Developer will be responsible to perform the remediation of any hazardous materials unknown at this time as necessary to comply with RWQCB Order 99-045, at the Airport's cost, subject to the Airport's prior approval. At any time the Airport's reimbursement costs for hazardous materials remediation is estimated to exceed $25,000,000, then the Airport may terminate the Project, provided it reimburses Airis SFO, LLC for all actual design and construction costs paid by Airis SFO, LLC to date.

Reimbursement by the Airport. Pursuant to the terms of the DDA, Airport will reimburse the Developer for those costs directly related to the handling of the above-referenced environmental conditions during demolition or construction. The following types of costs are eligible for reimbursement:

1. Reasonable and necessary costs of asbestos abatement work
2. Reasonable and necessary costs of additional investigation to the extent required by RWQCB or by state or local law or regulations
3. Reasonable and necessary cost of preparing the technical specifications and bid packages for the handling of contaminated soil
4. Reasonable and necessary costs of characterization, transport and disposal of contaminated soil
5. Reasonable and necessary costs incurred to treat contaminated ground water that cannot be discharged to the Airport's industrial wastewater treatment plant system without pretreatment.

Costs that are ineligible for reimbursements by the Airport include, but are not limited to

1. Costs of environmental investigation studies and planning not required by RWQCB or state and local laws and regulations
2. Soil Import Costs.
3. Building debris disposal costs associated with (except asbestos containing materials)
4. Costs of monitoring, reporting, documentation, or Developer oversight
5. Attorney or consultant fees
6. Project Delay Costs.

Developer has the right to pursue recovery directly from the responsible parties for those hazardous materials remediation costs that are not eligible for reimbursement by the Airport.

Environmental Cost Recovery. The Airport is currently pursuing all known responsible tenants for environmental costs through legal action.

San Francisco International Airport

ATTACHMENT VII

West Field Cargo Redevelopment Project

Summary of
Request for Qualifications/Proposals Process

Date	Action
March 4-13, 2002	**Advertising for Informational Meeting.** Advertisements placed in SF Chronicle, SF Independent, SF Business Times, two major aviation industry publications (Aviation Daily and Airports magazine) and seven minority newspapers, inviting interested parties to attend an informational meeting regarding the West Field Cargo Redevelopment Project.
March 27, 2002	**Informational meeting held.** Project goals were outlined and input solicited from attendees. The meeting was attended by 46 representatives from major cargo developers and industry related companies. All submitted letters of interest in the Project.
April 16, 2002	**Airport Commission authorized issuance of Request for Qualifications (RFQ)** to solicit qualification information from parties interested in redeveloping the West Field Cargo Area.
April 18, 2002	**RFQ mailed to interested parties**. The RFQ was mailed to 27 labor and minority advocacy groups in addition to the 46 parties that had previously submitted letters of interest.
April 20-29, 2002	**RFQ Advertised.** Advertisements placed in all publications listed above, inviting interested parties to submit qualifications pursuant to RFQ.
May 9, 2002	**Qualifications submittals received** from the following six companies: • Airis Holdings, LLC • AMB Property Corporation • Cargo Acquisition Corporation (a joint venture between Aeroterm, USA and Greenfield Partners, LLC)

- International Aviation Terminal Partnership
- Mallory and Evans Development LLC
- San Francisco International Air Cargo Centre, LLC (a joint venture between Trammel Crow Co. and Schipol USA, Inc.)

Staff confirmed that all submittals were complete and each of the six companies met the minimum qualifications for proposers.

June 19, 2002 **RFQ panel evaluated submittals.** The RFQ panel was comprised of the following City and independent experts (areas of special expertise in parentheses):

- Judith Blackwell, SF City Purchaser and Office of Contract Administration Director (public finance and contracting)
- Leo Fermin, Airport Finance Director (Airport finance and budgeting, economic planning and development)
- ~~Matthew Mead, Independent Consultant (airport planning)~~

Evaluation criteria with their weighting were set forth as follows (100 total possible points):

- Experience with Comparable Airport Projects (30 points)
- Team Structure and Team Experience (20 points)
- Technical Experience (20 points)
- Financial Ability and Experience (30 points)

The panel recommended the following companies for inclusion on the short list:

- Airis Holdings, LLC (89.0 total points)
- AMB Property Corporation (95.3 total points)
- Mallory and Evans Development LLC (83.7 total points)
- San Francisco International Air Cargo Centre, LLC (96.7 total points)

July 9, 2002 **Airport Commission authorized issuance of Request for Proposals (RFP) to the short list.** In this action, the Commission also approved the terms of the RFP, which terms confirmed the following project goals:

- Upgrade and modernize the Cargo Area within a secure environment.
- Accommodate existing cargo tenants and provide on-airport opportunities for new international tenants.
- Optimize use of the land envelope.
- Maximize financial returns while controlling adverse financial impact on the cargo community.
- Developer financing and management of the Project, in a manner that provides for reasonable developer returns, and enables the Airport to exercise appropriate discretion and control.
- Achieve a 30% goal in providing equal opportunity for local businesses, including minority and women owned businesses to participate in all aspects of the Project.

July 16, 2002 **RFP issued to Short List.**

October 10, 2002 **Proposals received from**

- Airis Holdings, LLC
- AMB Property Corporation
- San Francisco International Air Cargo Centre, LLC

Air Cargo Centre's proposal was found by staff to be non-responsive. because a central element of the proposal was a hotel, as opposed to the state-of-the art cargo facility sought through the RFP.

October 31, 2002 **RFP panel convened to evaluate Airis and AMB proposals**. The panel was comprised of two Airport employees and four outside experts, including (areas of special expertise in parentheses):

- Bruce Swanson, Vice President and Western Regional Manager of Parsons Aviation (management/oversight of major airport development and construction)
- Bryan Enarson, Director of Airport Operations, San Diego International Airport (airport and airline operations, airport property and facilities management, air service and commercial development)
- Judith Blackwell, SF City Purchaser and Office of Contract Administration Director (public finance and contracting)
- Nita Mizushima, Chief Harbor Engineer, Port of San Francisco (engineering, construction and contract management, overseeing private development of public properties)
- Don Whittaker, Assistant Deputy Director Operations Services,

San Francisco International Airport (airline and airport operations, maintenance/engineering for airport/airline facilities)

- Michael Varner, Architectural Project Manager, San Francisco International Airport (management/oversight of both private and public development and construction

The panel rated the proposals based upon evaluation criteria weighted as follows (100 total possible points):

- Development, including aesthetics, site utilization, creativity and quality of design, reasonable budget and schedule of performance (30 points)
- Operations, including marketing plan, operating plan, management structure, services offered, security considerations (20 points)
- Business & Finance, including revenue to City, reasonable pro forma, marketable subtenant fees/rates, financing methodology, risk to City (50 points)
- LBE Participation (Pass/Fail)

October 31, 2002, Cont.	The panel scored the proposals as follows (points stated as panel averages): • **Airis Holdings, LLC**: Development – 22.2, Operations 14.2, Business and Finance, 36.2. **Total: 72.6** • **AMB Property Corporation**: Development – 25.3, Operations 16.0, Business and Finance, 43.2. **Total: 84.5**
November 19, 2002	**Presentation of panel recommendation to Airport Commission.** Panel recommended selection of AMB, but item held over to December 2nd to consider additional information introduced through proposer testimony at the Commission meeting
December 2, 2002	**Commission directed panel to reconvene.** Given the volume and nature of the additional information, Commission directed the RFP panel to conduct interviews with the proposers and return to the Commission with an updated report. The Commission also requested that the Airport's independent consultants be in the room to answer panelists' questions, but not to participate in the analysis or scoring.

January 7, 2003	**Panel reconvened, moderated by Michael Brown of the John F. Brown Co.** There were no changes in panel membership, except for the unavoidable absence of one member. The moderator facilitated the meeting but was not a participant in the scoring. AMB and Airis, each gave presentations in addition to answering questions from the panel and additional outside experts. After hearing the presentations, the panel re-scored the proposers as follows (points stated as panel averages): • **Airis Holdings, LLC**: Development – 26.2, Operations 16.4, Business and Finance, 40.0. **Total: 82.6** • **AMB Property Corporation**: Development – 25.2, Operations 15.6, Business and Finance, 42.2. **Total: 83.0**
January 24, 2003	**Copies of proposals and detailed report by John F. Brown Company delivered to Commissioners for personal review.** The John F. Brown Company report was comprised of answers to specific Commission questions about the proposals and a detailed report on the panel proceedings. It did not include an independent ranking of the proposals or a recommendation for award.
January 30, 2003	**Airport Commission authorized staff to enter into exclusive negotiations with Airis.** Commission received staff and consultant reports and heard detailed presentations from both Airis and AMB before selecting Airis based upon Commissioners' personal assessments of how well each proposal addressed the project goals.

Item 13 - File 03-1726

Department: Municipal Transportation Agency (MTA)
Municipal Railway (Muni)

Item: Resolution approving Amendment No. 3 to the Paratransit Broker Agreement between MTA and ATC/Vancom, Inc., the City's Paratransit Broker, to increase the total amount of the Agreement by $26,308,656, or 39.7 percent, from not to exceed $66,333,277 to not to exceed $92,641,933, in order to meet the increased demand and costs for paratransit service through the end of the existing Agreement on March 31, 2005.

Amount: $26,308,656

Source of Funds: Attachment I, provided by Ms. Annette Williams of Muni contains the funding sources and amounts for this $92,641,933 Agreement, including the funding sources and amounts for the requested increase of $26,308,656.

Description: Paratransit services are door-to-door transportation services provided to City residents who are 1) elderly or disabled, 2) unable to use fixed-route public transportation, and 3) certified for such services based on the Americans with Disabilities Act (ADA) eligibility criteria. Paratransit services are provided through four modes of transportation, including taxis, ADA access vans, lift vans, and group vans. Such services cover a service area within (a) the geographic boundaries of the City and County of San Francisco, (b) small portions of northern San Mateo County including those areas within ¾ mile of Muni and Bay Area Rapid Transit System (BART), routes that run from San Francisco to the Daly City BART station, and (c) Treasure Island. According to Ms. Williams, paratransit services are intended to provide services to the same areas of service provided by Muni.

In February of 2000, the Board of Supervisors approved a five-year Paratransit Broker Agreement, with a term beginning April 1, 2000 and ending March 31, 2005, between MTA and COMSIS Mobility Services, Inc. dba

Intelitran (Intelitran) for a total amount not to exceed $66,333,277 (File No. 00-0045). Under this Agreement, Intelitran performs the services of a paratransit broker, including managing subcontracts with paratransit service providers, monitoring service quality, administering client eligibility, managing the sale of fare coupons including van ride coupons and taxi fare coupons, and acting on behalf of Muni as the principal customer service representative for Muni's Paratransit Program. Muni selected Intelitran to perform the paratransit broker services, through a Request for Proposal process, for the five-year period from April 1, 2000 through March 31, 2005. On April 1, 2001, the MTA Director of Transportation approved Amendment No. 1 to the Paratransit Broker Agreement, incorporating an Incentive/Disincentive Program into the subject Agreement, which provided for penalties and/or bonuses to the paratransit broker for their performance under the contract, according to Ms. Williams. The Board of Supervisors approved Amendment No. 2 to the subject Agreement on January 28, 2002, providing for the sublease of 24 ramped minivans to paratransit taxi service providers (Resolution No. 02-0001). According to Ms. Williams, on August 11, 2003, the MTA Executive Director approved a "name assignment" of the Paratransit Broker Agreement, from the firm's former name of Intelitran to the firm's new name of ATC/Vancom, Inc.

Comments:

1. As stated on page 1 of the Attachment III provided by Ms. Williams, for the Agreement period beginning April 1, 2000 through June 30, 2003, Muni paid paratransit costs of approximately $56,692,689, leaving a balance of $9,640,588 remaining under the Agreement ($66,333,277 subject Agreement amount less $56,692,689). As reported by Ms. Williams on page 1 of Attachment III, the projected costs for paratransit services, from July 1, 2003 through the end of the Agreement on March 31, 2005, is $35,949,243. Therefore, as shown on page 2 of Attachment III, Ms. Williams reports that an additional $26,308,656, which is the subject of this request ($35,949,243 in additional projected costs less remaining balance of $9,640,588), would be needed to meet Muni's projected paratransit costs under this existing Agreement.

2. Pages 3 through 5 of Attachment III explains the reasons why Muni is projecting a total cost under this Agreement of $92,641,933 which as previously noted is $26,308,656 or 39.7 percent more than the existing Agreement as previously approved by the Board of Supervisors. As stated on page 3 of Attachment III,

> The budget for the five-year contract period, $66,333,277, was developed by Muni staff based on projected service costs and anticipated demand at the time the original request for proposals was issued in 1998. The budget included an average 3.25% increase in annual expenditures, and did not anticipate significant increases in demand or costs for the services. Muni is now requesting approval of Amendment No. 3 to the Agreement between the City and County of San Francisco and ATC/Vancom, the City's Paratransit Broker, increasing the total amount of the contract by $26,308,656 from a sum not to exceed $66,333,277 to a sum not to exceed $92,641,933, in order to meet the increased demand and costs for paratransit services during the contract period."

Recommendation: Approval of the proposed resolution is a policy matter for the Board of Supervisors.

MEMORANDUM

To: Leanne Nhan
Budget Analyst Office

From: Annette Williams
Accessible Services

Date: November 19, 2003

Subject: Paratransit Broker Contract Amendment

Funding sources for Paratransit Contract

The funding sources for the paratransit contract and the percentage of the contract funded from each source in FY03-04 is listed below. Percentages have remained fairly consistent and are expected to continue to do so through the remainder of the contract

1. San Francisco County Transportation Authority (TA) 47%
2. Muni General Fund (Muni) (Includes Federal Transit Operating Assistance, Transportation Development Act funds and City General funds) 40%
3. Bay Area Rapid Transit (BART) 7%
4. State Transit Assistance (STA) 3%
5. Office on Aging and Adult Services (OoA) 3%

The approximate funding for the proposed Paratransit contract in the amount of $92,641,933 from each source is as follows:

TA	$43,541,709
Muni	37,056,773
BART	6,484,953
STA	2,779,257
OoA	2,779,257
Total	**$92,641,933**

The approximate funding for the proposed $26,308,656 increase in the Paratransit contract from each source is as follows:

TA	$12,365,068
Muni	$10,523,462
BART	$1,841,606
STA	$789,260
OoA	$789,260
Total	**$26,308,656**

Of the $26,308,656 increased paratransit costs, $10,433,388 is included in Muni's FY 2003-2004 budget, and $15,875,268 will be included in Muni's FY 2004-2005 budget.

Contracting Authority
Muni estimates that paratransit costs will reach the Agreement not to exceed amount of $66,333,277 by the end of December of 2003, based on current expenditure trends through October 2003 (previously provided). Therefore, new contracting authority will be necessary commencing January 1, 2004.

MEMORANDUM

To: Leanne Nhan
Budget Analyst Office

From: Annette Williams
Accessible Services

Date: November 19, 2003

Subject: Paratransit Broker Contract Amendment

The purpose of this memo is to provide an explanation of why the Paratransit Broker Agreement between ATC/Vancom Inc. and the City and County of San Francisco was signed by the Board of Supervisors in February 2000 but did not commence until April 1, 2000, and also to provide more information about Amendments No. 1 and and the Assignment and Assumption Agreement.

Transition and Start Up

The Paratransit Program serves over 17,000 ADA-certified consumers. Transitioning such a large operation from one Brokerage company to another requires a start up period to ensure a seemless transition. The Municpal Transportation Agency (formerly known as the Public Transportation Commission) and the Board of Supervisors understood the need for a transition period, and therefore built into the process adequate time for the change in brokerage companies. That is why the Agreement was approved by the Board of Supervisors in February 2000 and the Agreement period started April 1, 2000.

Contract Amendment No. 1

The Board of Supervisors was not required to approve Amendment No. 1, which provided for the development of a Broker Incentive/Disincentive Program, because this Program was specified in the original Agreement under Section 19. Section 19 of the Agreement states that the Incentive/Disincentive Program shall be incorporated into the Agreement through a contract amendment signed by the MUNI General Manager.

Assignment and Assumption Agreement

On August 11, 2003, the MTA Executive Director approved a name assignment to ATC/Vancom Inc., at the request of Comsis. This was merely a name change; there was no change in personnel at the San Francisco program. The name change was requested as a result of ATC's purchase of all of the stock of Comsis. The name assignment did not require approval by the Board of Supervisors.

Municipal Transportation Agency
City and County of San Francisco

DIVISION ACCESSIBLE SERVICES

Budget Details

The paratransit budget is comprised of service costs and broker administrative costs. The service costs are the majority of expenditures, and include the actual costs for paratransit trips. The Paratransit Broker contracts with 9 van companies, which provide paratransit service to ADA eligible consumers. The contracts were competitively bid and the reimbursement is based on a cost per trip basis. The Paratransit Broker also has contracts with 13 taxi companies and 2 taxi dispatch services. All taxi companies in San Francisco are required by ordinance to participate in Muni's paratransit program. The reimbursement to taxi companies and dispatch services is based on the taxi meter rates. From April 1, 2000, the beginning of the contract, through June 30, 2003, Muni has spent approximately $56,692,689 on paratransit costs with approximately $9,640,588 remaining.

The service costs and broker administrative costs projected for the period from July 1, 2003 through March 31, 2005 are shown below:

Mode	Projected Budget, fy03-04	Projected Budget, fy04-05 (9-month contract period)	Total Service Costs, fy03-04 plus 9 months of fy04-05
Taxi	$8,686,784	$6,892,963	$15,579,747
Group Van	$3,783,040	$3,001,842	$6,784,882
Lift Van	$3,213,514	$2,549,923	$5,763,437
ADA Access	$1,630,662	$1,293,930	$2,924,592
Intercounty	$26,260	$20,837	$47,097
SubTotal	$17,340,260	$13,759,496	**$31,099,756**

Projected Service Costs	$31,099,756
Projected Broker Administrative Costs	$4,849,487
Total Projected Costs	**$35,949,243**

Basis for Projections

Service costs for the current fiscal year were projected by analyzing the paratransit usage by mode for the prior fiscal year and adding a 2% increase for taxi and a 3% cost of living adjustment for Group Van, Lift Van, and Intercounty service to the average monthly expenditures at the time the budget was developed. The expenditures for ADA Access were estimated based on the growth trend for that program over the last year. This method of projection was assessed to be more accurate than a simple percent increase because of the rapid growth in the ADA Access program. All new ambulatory consumers are registered into the ADA Access program, which is the fastest growing mode at the

DIVISION: **Municipal Railway**

PROJECT: **Paratransit Broker Contract Amendment No. 3**

current time. The lower cost adjustment for taxi is based on a lower expected growth rate due to a freeze on new people entering the taxi program.

The service costs for the 9-month period in fiscal year 2004-05 were estimated based on a 5.8% cost of living adjustment for all modes. The 5.8% factor was derived based on a standard 3.5% cost of living adjustment, plus a 2.8% growth rate. The 2.8% growth rate was estimated based on demographic data provided in the Older Adults Transportation Study, commissioned by the Metropolitan Transportation Commission. In that study, ADA paratransit eligibility in San Francisco is projected to grow by 26% from 2000 to 2020, an average of 1.3% per year. Muni staff calculated an additional 1% growth rate due to an "independent living factor," which is an estimate of the latent demand for paratransit services based on more people living longer lives and living more independently than in the past (i.e. more people living in the community rather than in institutions).

The broker administrative costs of $4,849,487 for the period from July 1, 2003 through March 31, 2005 (Projected Expenditures for FY 03-04 and FY 04-05 – 9 months) are shown in Appendix B.

Calculation forAdditional Costs in Proposed Amendment

Projected service costs, fy03-04 plus the first 9 months of fy04-05	$31.099,756
Projected Broker costs, fy03-04 plus the first 9 months of fy04-05	$4,849,487
Total projected costs	$35,949,243
Amount left in original contract	$9,640,588
*Total additional costs in proposed amendment**	$26,308,656
Additional service costs	$24,422,066
Additional Broker costs	$1,886,590

*Total additional costs were derived by subtracting the amount left in original contract from the total projected costs.

A detailed budget for the additional $1,886,590 Broker costs is provided in Appendix B. Many line items in the Broker administrative budget have fluctuated both above and below the budget amount. The main line items that have increased above the original administrative budget amount are rent, postage, scrip printing and related costs, and general printing costs. Most of the cost increases are due to the increased volume of service.

It is important to note again, that these budget figures are "not to exceed" amounts. The additional contract authority of $26 million ensures the ability to pay for paratransit services, although the entire amount may not actually be expended if demand or costs are lower than projected.

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EXPLANATION:

The budget for the five-year contract period, $66,333,277, was developed by Muni staff based on projected service costs and anticipated demand at the time the original request for proposals was issued in 1998. The budget included an average 3.25% increase in annual expenditures, and did not anticipate significant increases in demand or costs for the services.

Muni is now requesting approval of Amendment No. 3 to the Agreement Between the City and County of San Francisco and ATC/Vancom, the City's Paratransit Broker, increasing the total amount of the contract by $26,308,656 from a sum not to exceed $66,333,277 to a sum not to exceed $92,641,933, in order to meet the increased demand and costs for paratransit service during the contract period.

As will be explained below, increased demand and increasing costs have had significant effect on the accuracy of the budget projections.

Increased Demand

The ADA prohibits capacity constraints in providing paratransit services, which means that a transit agency cannot limit the number of qualified patrons seeking to use paratransit, nor can it limit the amount of trips qualified patrons choose to take on ADA paratransit. Due to the demands of the ADA, budget projections can only be estimated, based on past trends and anticipated demand levels and service costs. Unanticipated increases in demand levels and service costs have caused the overall budget for the life of the contract to exceed the initial budget projection.

From fiscal year 1999-00 through the end of fiscal year 2002-03, the number of trips provided by SF Paratransit has increased 34%. The increase in demand for paratransit services may be attributed to a combination of factors, including:

- Full implementation of the ADA in 1997. In January 1997, Muni had to remove limits on taxi and lift van services to achieve compliance with the ADA. At that time, taxi was serving as an ADA paratransit service. This was prior to the development of the ADA Access mode, which currently serves as Muni's ADA-compliant service along with lift van. Taxi service can now be limited because it is not considered an ADA service.
- Better taxi service. The City has added nearly 500 cabs in the past few years and this has greatly improved access to services.
- The population is aging, and life expectancy rates have increased. This means that more people tend to be eligible for paratransit services because there is a relationship between age and inability to use fixed route service.
- More people with disabilities, as well as frail elders, are living independently rather than in institutions, and require paratransit to meet their daily needs.
- The ADA has sensitized people to the fact that they have a right to public transportation.

The growth in the past few years in Muni's paratransit program is not unique to San Francisco. According to other peer studies, growth in paratransit programs is a national phenomenon. Overall, the Bay Area has experienced tremendous growth in paratransit. MTC's study, "State of the Region 2002:

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Status of San Francisco Bay Area Paratransit Programs," states that overall paratransit expenditures in the Bay Area have increased 100% over the past six years.

Increasing Costs

Increasing costs, as well as increasing demand, have also caused paratransit expenditures to exceed projections. The main cost factors include:

- **Increased service costs associated with new provider contracts:** Over the past few years, the cost of doing business has increased, particularly in transportation-related businesses. To address community concerns about driver turn-over, the paratransit program increased group and lift van driver salaries. The wages increased by $1.00/hour in April 2000, to a minimum of $10.40/hour after completion of training.

  New group and lift van provider contracts went into effect on May 1, 2001 with increases in the cost per trip. The new costs per trip reflect the labor cost, fuel cost and overall cost-of-living increases since the contracts last went out for competitive bid. An annual cost-of-living adjustment is included for both driver's salaries and the per trip cost rates.

Table 2: Cost per Trip Rate Comparison

	Old Provider Contract	New Provider Contract
lift van	$28.80	$32.06
group van ambulatory*	$8.90	$10.98
group van wheelchair*	$11.22	$11.66

*average cost

June 2000 taxi meter rate increase: The taxi meter rates increased in June 2000 from $1.80 per mile to $2.00 per mile, which has greatly impacted expenditures in paratransit taxi service, given the fact that over 65% of paratransit trips are provided on taxis. Expenditures in paratransit taxi service have increased 49% from fiscal year 1999-00 to fiscal year 2002-03, which reflects both the rise in demand and the increase in costs.

- **Higher broker administrative costs:** The Paratransit Broker administrative costs have increased as a result of the overall growth in the program. The Broker developed its administrative cost budget based on the information in the RFP, as well as through a review of the prior broker's expenditures. The delay in the execution of the contract, as well as the dramatic increase in service caused the Broker's administrative costs to increase beyond what had originally been estimated. The Broker's administrative costs have not increased at the same rate as the service costs, however (see Appendix A). 146

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One specific Broker cost item that is particularly noteworthy is the office rent. The office rent is currently much higher than had been budgeted. This is due to the delay in the award of the Broker contract. Although the RFP for this contract was issued in November 1998, the Agreement did not commence until 18 months later, on April 1, 2000. The protracted bidding and selection process affected the accuracy of the budget projections because the 18-month period corresponded with the "dot com boom." For example, the initial estimate for the annual cost of office space was $168,000, which was based on 1999 real estate prices. During the dot com boom, vacancy rates were dramatically low and the price for available space was an average of $80 per square foot for Class A space and an average of $69 per square foot for Class B space (see attached chart, "Class A & B Office Asking Lease Rents by Quarter"). The Broker negotiated an annual rent of $375,996 for the first 36 months of the lease, or $47 per square foot, with increases to $52 per square foot for the remaining period. Additionally, there is a monthly payment of $3,960.68 for tenant improvements for the full term of the lease. Due to significant changes in the rental market resulting from the dot com bust, Muni requested the Broker to try to renegotiate the existing lease with its landlord. The broker is currently attempting to re-negotiate the office lease.

Budget Management

In an effort to control increasing paratransit costs, Muni has implemented a series of budget management strategies, including:

- **Taxi freeze:** As of January 1, 2002, all new ambulatory ADA-eligible paratransit consumers are registered into ADA Access van service and not taxi service. New applications have declined approximately 35% since this policy was implemented.
- **Group van cap:** In December 2000, Muni implemented a limit on new participants in the group van service. New participants can only enter the program as a replacement for a client who has left the program. Each agency receiving group van service has an average daily attendance rate, and under the cap, the number of daily group van trips is frozen.
- **Regional eligibility study:** The number of people applying for and receiving paratransit eligibility is increasing region-wide. MTC has hired a consultant to help analyze the current eligibility process and recommend improvements, helping to ensure that only those that are truly eligible for services are receiving them.
- **Taxi fraud mitigation efforts:** The Paratransit Broker's office, in conjunction with Muni, has developed a series of fraud mitigation measures, including setting up an 800 fraud hotline, and coordinating investigative efforts with SFPD and Muni Security.
- **Strategic planning effort with community:** Muni Accessible Services staff has been working closely with the Paratransit Broker and the community to develop a strategic plan for the management of paratransit resources. Muni, in conjunction with the community, has developed a "White Paper" analysis of the San Francisco Paratransit Program. Muni is currently in the process of developing a five-year financial plan to target additional funding sources for paratransit.
- **Increase in paratransit fares:** On September 1, 2003, the per book cost of taxi scrip increased from $3.00 to $4.00 and the group and lift van monthly fares increased from $8.00 to $10.00.

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The cost savings measures that have been implemented have helped to reduce the significant growth patterns of the preceding years, as depicted below in Table 1.

Table 1: Paratransit Expenditures

Fiscal Year	Paratransit Expenditures	% change
1999-00	$13,691,089	
2000-01	$16,109,562	17.70%
2001-02	$17,833,718	10.70%
2002-03	$18,581,338	4.20%

The contract provides for payment to the Broker according to a cost plus fixed fee structure; Muni staff is not recommending nor is the contractor requesting to increase the Broker fee for the period of the contract. The fixed fee for the current fiscal year is $106,379.

Use of Muni logo

A section is included in the contract amendment to allow ATC/Vancom Inc,. to use the Municipal Railway logo on the contractor's web site. Muni has specific limitations on the use of it's logo and they are stipulated in this contract amendment to assure that any use meets Muni's requirements.

Item 14 - File 03-1243

Department: Airport
City Attorney

Item: Resolution approving and authorizing a Contingency Fee Agreement between the City Attorney and Phillips and Cohen, LLP, a law firm selected by the City Attorney, pertaining to the litigation initiated by the City Attorney against Scott Company of California and related entities with regard to construction projects at the Airport's International Terminal, Air Train system, and parking facilities. Under the proposed Contingency Fee Agreement, Phillips and Cohen, LLP would receive 30 percent of any settlement received by the City, net of costs incurred by the City for certain litigation-related costs (see Comment No. 2).

Description: On September 23, 1999, the City Attorney initiated litigation against Scott Company of California and related entities,[1] on behalf of the City and County of San Francisco concerning construction projects at the Airport. The attached memorandum, provided by Ms. Joanne Hoeper of the City Attorney's Office, describes the background pertaining to the subject litigation and the proposed Contingency Payment.

The proposed resolution would authorize a Contingency Fee Agreement between the City Attorney and the law firm of Phillips and Cohen, LLP, to serve as outside counsel to assist the City Attorney in this pending litigation matter.

Comments: 1. The following information is included in the attached memorandum provided by Ms. Hoeper:

- An overview of the litigation filed by the City Attorney against Scott Company of California and related entities.

[1] The "related entities" comprise Al Norman Plumbing, Inc., Scott-Norman Mechanical, Inc., Richard W. Davis, Joseph A. Guglielmo, Alvin P. Norman, Jacqueline Norman, and Robert T. Nurisso.

- A summary of the contracts held by Scott Company of California and related entities in connection with Airport construction projects, which had a total value of over $60,000,000.
- A description of the City Attorney's selection process for outside counsel, which resulted in the selection of Phillips and Cohen, LLP. Ms. Hoeper reports that Phillips and Cohen, LLP is "the leading national firm prosecuting false claims actions" for public entities, and has successfully represented the City in a previous false claims case.
- Ms. Hoeper reports that the only other legal firm which submitted a proposal sought a 36 percent contingency payment, whereas Phillips and Cohen, LLP's seeks a 30 percent contingency payment.

2. Under the Contingency Fee Agreement, the outside counsel, Phillips and Cohen, LLP will be compensated as follows:

- Under the proposed Contingency Fee Agreement, the City will pay Phillips and Cohen, LLP 30 percent of any settlement proceeds received by the City, net of the costs incurred by the City for copying, deposition transcripts, expert fees, consultant charges, and other litigation-related costs.
- If Scott Company of California and related entities are required to pay the City's reasonable attorneys' fees, costs, and expenses, the City will allocate to Phillips and Cohen, LLP the amount equivalent to the attorney hours and non-reimbursed costs and expenses incurred by Phillips and Cohen, LLP. The City will retain the portion of the amount paid by Scott Company of California and related entities that relates to expenses paid by the City or to work performed by staff of the City Attorney's Office, and that amount will not be considered for the purposes of calculating the Contingent Payment to Phillips and Cohen, LLP. As stated in the subject Agreement, if Phillips and Cohen, LLP "submits a Statutory Fee and Expense Award application to the court, and the court denies some portion of the application or reduces [Phillips and Cohen, LLP's] normal hourly rates, the City shall have no obligation with respect to the shortfall."

- Reimbursement for actual and reasonable out-of-pocket expenses, including the costs incurred for expert witnesses, consultants, deposition reporting, videotaping and transcripts, parking fees, copying costs, process servers, postage, external messenger and delivery costs, reasonable travel expenses,[2] exhibit preparation, document scanning, coding, and database-related services. No mark-up or surcharge can be added to such expenses by Phillips and Cohen, LLP. Any single out-of-pocket expenses in excess of $500 and any expenses for travel outside of the Bay Area are subject to the prior written approval of the City Attorney's Office.

3. Ms. Hoeper confirms that no payments have been made to date by the City Attorney's Office to Phillips and Cohen, LLP.

4. In the event that there is no recovery from Scott Company of California, the Agreement between the City Attorney and Phillips and Cohen, LLP states "the City shall not be obligated to pay anything to [Phillips and Cohen, LLP] other than the reimbursement of expenses" as specified above.

5. In the event that Scott Company of California and related entities prevail in this litigation, Scott Company of California could seek to recover its expenses, costs, and attorney's fees from the City. In that event, the City agrees to be legally responsible for paying all of those expenses, costs, and attorney's fees. Phillips and Cohen, LLP would not be responsible for paying any such costs.

6. The Budget Analyst asked (a) why the City Attorney's Office is not planning to perform the subject litigation work in-house instead of retaining Phillips and Cohen, LLP, and (b) how much it would cost the City Attorney's Office to perform the work in-house. In response, Ms. Hoeper stated:

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[2] Reasonable travel expenses include coach airfares, and moderate hotel and meal costs. They do not include automobile rental fees incurred to attend meetings, taxicab fares from Phillips and Cohen, LLP's offices to an employee's residence, parking expenses incurred by an employee who takes his/her vehicle to work in order to attend meetings, and meals for working overtime.

The City Attorney's Office is proposing to retain Phillips and Cohen in order to leverage the City's legal resources in this time of budget cuts. By retaining such outside counsel, the City Attorney's Office is able to free up attorneys to work on other pressing legal matters, including other litigation in which the City is the plaintiff, that could result in substantial recovery to the City. The contingent fee arrangement with Phillips and Cohen also shifts any risk in the litigation to the law firm. It helps to insulate the City from the possibility that after the City invests significant attorneys' fees in the case, the City does not win the case, or it does win the case but the judgment is uncollectible because the defendant cannot pay. It also helps to insulate the City from the possibility that the cost of the legal expenses invested in the lawsuit by the City will be greater than the recovery.

It is not possible at this point to prepare a useful estimate of the cost to perform this work in-house. Any estimate would be based on a series of assumptions about the likely course of the litigation (e.g. whether the defendants settle the case or whether they proceed to trial) and would cover such a wide range of possible outcomes as to be essentially meaningless.

Recommendation: Approval of the proposed resolution is a policy matter for the Board of Supervisors.

CITY AND COUNTY OF SAN FRANCISCO

DENNIS J. HERRERA
City Attorney

OFFICE OF THE CITY ATTORNEY

JOANNE HOEPER
Chief Trial Deputy

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MEMORANDUM
PRIVILEGED & CONFIDENTIAL

TO: Finance and Audit Committee

FROM: Joanne Hoeper, Chief Trial Deputy

DATE: September 3, 2003

RE: File 03-1243 – Authorizing a Contingent Fee Agreement between the City and Phillips and Cohen, LLP

The Budget Analyst has asked us to provide the following information regarding the proposed Contingent Fee Agreement between the City and Phillips and Cohen, LLP:

I. Overview of litigation against Scott Company of California and related entities

Scott Co. of California, a large, non-minority owned, non-local mechanical construction business, joined with Al Norman, the minority owner of a small, local plumbing company to form the fictitious company of Scott-Norman Mechanical, Inc. to take advantage of San Francisco's Minority Business Enterprise program. Scott-Norman secured seven contracts to renovate the San Francisco International Airport, totaling over $60 million. In a separate criminal proceeding, Scott-Norman, Scott Co. and Robert Nurisso (executive vice-president of Scott Co.) pled guilty to felony mail fraud for defrauding San Francisco with this front scheme. This action is a civil proceeding by San Francisco for fraud, false claims and unfair business practices against the companies and individuals responsible for the front scheme. The case is currently in discovery. Trial has been set for March 22, 2004.

II. Summary of contracts held by Scott Company of California and related entities in connection with Airport construction projects

Scott-Norman Mechanical was awarded seven contracts for construction of the Airport master plan projects: (1) 5520E – Boarding Area G; (2) 5500E – International Terminal; (3) 5600C – South International Parking Garage; (4) 5650A – Rental Car Facility; (5) 5670A – H/Art Station and Parking; (6) 5700A – Air Train Guideway East; (7) 5700B- Air Train Guideway West. The contracts had a total value of over $60 million.

III. The process used by the City Attorney's Office to select Phillips and Cohen, LLP as outside counsel

The City Attorney is committed to providing the highest quality legal advice in a cost-effective and efficient manner. In certain circumstances, such as the affirmative litigation at issue here, the use of outside counsel will minimize the cost and risk to the City and help leverage the Office's resources.

CITY AND COUNTY OF SAN FRANCISCO OFFICE OF THE CITY ATTORNEY

Memorandum
Privileged & Confidential

TO:	Finance and Audit Committee
DATE:	September 3, 2003
PAGE:	2
RE:	File 03-1243 – Authorizing a Contingent Fee Agreement between the City and Phillips and Cohen, LLP

The City Attorney selected the firm of Phillips and Cohen, LLP as outside counsel using the following process, which is the same process used whenever outside counsel is retained:

First, the City Attorney considered counsel's subject matter experience and their expertise and reputation for handling complex false claims actions for public entities. Phillips and Cohen was selected because it is the leading national firm prosecuting false claims actions. For example, qui tam (whistleblower) cases brought by the firm have generated civil and criminal recoveries to the federal government totaling more than $2.6 billion. The firm also has brought numerous cases under state false claims laws, including California law. One of the firm's founding partners, John R. Phillips, was involved in drafting the federal False Claims Act, on which California's false claims laws are based.

In addition, Phillips and Cohen has successfully represented the City in a previous false claims case. The firm's work in that case confirmed both the firm's skill and the value that outside counsel can provide in a false claims case. In that matter, a former employee alleged that the James Jones Co. knowingly sold defective waterworks components to numerous municipalities, including the San Francisco Water Department, and thereby violated the state False Claims Act. Los Angeles Department of Water & Power, et al., ex rel Armenta v. James Jones Co.: (LA Sup. Ct. No. BC 173487). The parts were defective because they were made of substandard metals, and contained excessive amounts of lead. Philips and Cohen represented the whistleblower throughout those proceedings, and was also retained by San Francisco and a number of other local governments. Los Angeles (who did not retain Phillips and Cohen) settled for a relatively small amount, approximately two times its actual purchases of defective parts. After that, San Francisco, EBMUD, and Santa Monica (who were all represented by Phillips and Cohen) were designated as the three "Phase I" plaintiffs, whose claims will be tried first. As the Phase I trial date approached, defendants agreed to settle the Phase I plaintiffs' claims for over ten times the amount of their purchases of defective parts. San Francisco's share of this award (net of fees and the relator's share) was $2,890,908.

Second, the City Attorney makes the greatest possible outreach to the local legal community and is committed to providing equal opportunities to all counsel, including minorities and women and local minority and women owned firms. The City Attorney specifically solicited proposals from local minority and women owned firms and had follow-up discussions with several firms that expressed an interest in this engagement.

Third, outside counsel must comply with all applicable City requirements, such as the equal benefits ordinance and minimum compensation and health care accountability ordinances. Phillips and Cohen LLP complies with these requirements.

Finally, the City Attorney considers the financial terms of the engagement and seeks to obtain the most advantageous terms possible. As discussed below, Phillips and Cohen was not only the most experienced and skilled counsel competing for the engagement, but it proposed financial terms that were more favorable to the City.

Memorandum
Privileged & Confidential

TO:	Finance and Audit Committee
DATE:	September 3, 2003
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RE:	File 03-1243 – Authorizing a Contingent Fee Agreement between the City and Phillips and Cohen, LLP

IV. The financial terms of other proposals received by the City Attorney's Office from outside legal firms

Although a number of firms expressed initial interest in the engagement, only one other firm in addition to Phillips and Cohen actually submitted a proposal. That firm proposed to handle this case on a 36 percent contingency basis, with San Francisco being responsible for all costs. It should also be noted that the firm, while well regarded, did not have nearly the expertise in false claims actions as Phillips and Cohen.

If you have other questions, or I can be of any further assistance, please do not hesitate to call me at 554-3917.

Item 15 - File 03-1710

Note: This item was continued by the Finance and Audits Committee at its meeting of November 19, 2003.

Department: Airport

Item: Resolution approving the 28 Direct Leases for the Airport Domestic Terminals Food and Beverage Redevelopment Program – between Lori's Diner International, Inc.; Andale SFO; Sanraku, Inc.; Meyers Holdings, LLC, Firewood Café, Series I-II; Fung Lum Express, LLC; Bayport Concessions, LLC; Bay Area Restaurant Group Joint Venture; GDDC, Inc.; Tomokazu Japanese Cuisine (SFO), Inc.; (Jonathon Leong) L & H, LLC; H. Young Enterprises, Inc.; WSE Group; San Francisco Soup Co., Inc.; Guava & Java (SFO), Inc.; J. Avery Enterprises; Gotham Enterprises, LLC, SFO Coffee IV-VI Series; H. Young Enterprises; Susie Lee Tong Enterprises, Inc.; Lady Luck Gourmet, LLC; Creative Host Services, Inc.; D-Lew Enterprises, LLC; Burger Joint, Inc.; Creative Host Services, Inc.; Emporio Rulli, Inc.; Bay Area Restaurant Group Joint Venture; D-Lew Enterprises, LLC; Bay Area Restaurant Group Joint Venture; Andre-Boudin Bakeries, Inc., each as a tenant, and the City and County of San Francisco, acting by and through its Airport Commission, as landlord. These Direct Leases replace the Master Lease Program currently in place and set to expire on August 31, 2004.

As compared to the Master Lease Program currently in place under which one lessee Host International, Inc. serves as the Master Tenant in charge of various food and beverage concessionaires in the Domestic Terminal Building Complex, including Domestic Terminals 1 and 3, connecting concourses, piers, and the boarding areas, this

proposed Direct Lease Program would comprise 28 separate lessees operating 42 food and beverage establishments in Domestic Terminals 1 and 3 of the Airport.[1]

Location: Domestic Terminals 1 and 3 of the Airport.

Description: Approval of the proposed resolution would institute a Direct Lease Program for the redevelopment of the Domestic Terminals Food and Beverage Program, comprising the 28 lessees listed in Attachment I, provided by the Airport, instead of having one Master Tenant (currently, Host International) as is presently the case. The proposed Direct Lease Program is described below.

Purpose of Leases: The proposed 28 new ten-year leases, with one two-year option at the Airport's discretion, (see Right of Renewal section below) would provide approximately 48,438 square feet of space in various locations in Domestic Terminals 1 and 3 of the Airport for 28 lessees to operate 42 food and beverage establishments under a Direct Lease Program, as defined in Attachment II, provided by Mr. David Pfeiffer of the Airport. The 28 leases would be phased in as the space becomes available (see "Airport Infrastructure Improvements" and "Tenant Improvements" sections below). Between September 1, 2004 and November 30, 2004, 15 of the 42 food and beverage establishments would be in operation. Eight of those establishments would be operating in temporary facilities until the Airport begins construction of their permanent facilities. The other seven establishments would be full-lease establishments with the Airport infrastructure improvements and the tenant improvements already completed prior to September 1, 2004. According to the Airport, the remaining 27 establishments would be incrementally phased in to be ready for operation by August 31, 2005.

[1] Since twelve of the 28 lessees have two establishments and one lessee has three establishments under the same lease, the total number of businesses under these 28 leases is 42.

Table 1: Phasing In The Food and Beverage Establishments Under the Direct Lease Program

Timeframe	New Establishments in Operation	Total in Operation
Sept. 1, 04 – Nov. 30, 04	15	15
Dec. 1, 05 – Feb. 28, 05	9	24
Mar. 1, 05 – May 31, 05	8	32
Jun. 1, 05 – Aug. 31, 05	10	42

Lessor: City and County of San Francisco, acting by and through its Airport Commission.

Lessees: 28 lessees, as listed in Attachment I, provided by the Airport.

Number of Square Feet: Approximately 48,438 square feet of space, itemized by the 28 individual leases listed in Attachment I. According to Mr. Pfeiffer, based on preliminary discussions he has had with some of the airlines, whose terminal spaces are situated next to the proposed food and beverage establishments, the actual square footage may increase by 1,914 square feet to 50,352 square feet. Also, according to Mr. Pfeiffer, prior to the tenants occupying the space and subsequent to the completion of the tenant improvements, the assigned spaces would be re-measured and the Minimum Annual Guarantee (MAG) would be adjusted accordingly.

Annual Rent Payable by 28 Lessees to Airport: The 28 proposed leases would cumulatively require the 28 lessees to pay the Airport the greater of either the total MAG of $1,937,520 each year (see Attachment I) as adjusted (see Adjustments to MAG section below) from FY 2005-2006 through FY 2014-2015,[2] based on $40 per square foot, or a percentage of each lessee's gross revenues applicable to their food and beverage category as shown in Table 2 below. The MAG and the tiered percentage of gross revenues were developed by the Airport based on the actual performance of the existing Food and Domestic Concessions Direct Lease Program being operated at the Airport's International Terminal. According To Mr. Pfeiffer, differences in the tiered

[2] The standard term of the leases is ten years. However, for each lease there is a one two-year option to extend the term, for a total of 12 years. The Airport has incorporated the additional two years into their projections for the 12 year period of FY 2004-2005 through FY 2015-2016. During the first year, FY 2004-2005, the Airport will not receive the full value of the annual rent since all establishments would not have been in operation for the full year.

percentage by food and beverage category is based on the differences in margins. Attachment III, provided by the Airport, explains in detail how these tiered percentages of gross revenue and the MAG were developed.

Table 2: Tiered Revenue Percentages by Category Under the Proposed Direct Lease Program

Food and Beverage Category	Tiered Percentage Rent
Casual Dining/Bar	▪ 8% of Gross Revenues up to and including \$600,000; plus ▪ 10% of Gross Revenues between \$600,000.01 and \$1,000,000; plus ▪ 12% of Gross Revenue over \$1,000,000
Quick Serve and Café[3]	▪ 6% of Gross Revenues up to and including \$600,000; plus ▪ 8% of Gross Revenues between \$600,000.01 and \$1,000,000; plus ▪ 10% of Gross Revenue over \$1,000,000.
Fast Food	▪ 8% of Gross Revenues up to and including \$750,000; plus ▪ 10% of Gross Revenues between \$750,000.01 and \$1,200,000; plus ▪ 12% of Gross Revenue over \$1,200,000.
Specialty Coffee	▪ 8% of Gross Revenues up to and including \$750,000; plus ▪ 10% of Gross Revenues between \$750,000.01 and \$1,400,000; plus ▪ 12% of Gross Revenue over \$1,400,000.

Use of Competitive Bidding Procedures to Determine the MAG and the Percentage Rents: The Airport did not use competitive bidding procedures to determine either the MAG or the percentage rents.

Adjustments to MAG: The MAG will be adjusted annually on January 1st. The adjustment is based on a formula, which for each of the 28 leases compares (a) the percentage increase in the Consumer Price Index (CPI) and the total number of airline passengers on the lease's anniversary date, with (b) the CPI and total number of airline passengers at the commencement of the lease. Each year, the MAG cannot be lower than the prior year.

[3] According to Mr. Pfeiffer, the tiered percentage rates for the "Quick Serve and Café" food and beverage category are lower than the other food and beverage categories because the gross margins for the Quick Serve and Café establishments are lower.

Suspension of MAG: The MAG will be suspended if, at any time during the lease term, there is a "Severe Decline in Enplanements," defined as actual enplanements achieved during a calendar month being less than 80 percent of the actual enplanements of the same month in the prior year, for a period of three consecutive months. During the suspension period, each lessee shall be required to pay only the rent equal to the percentage of that lessee's gross revenues applicable to their food and beverage category as outlined above. In some cases, this could result in revenues above the MAG. Once actual enplanements for a particular calendar month equal or exceed 80 percent of the actual enplanements of the same month in the prior year, and this threshold is achieved for two consecutive months, then the MAG is reinstated. Attachment IV, provided by the Airport, explains why the Airport has proposed the above suspension provisions.

Other Fees Payable By Lessees to the Airport: In addition to the annual rent payments, the lessees will be required to pay to the Airport two additional fees, a "Tenant Infrastructure Fee," and for those lessees with leased space in the food court area, an additional "Food Court Fee." The food court area is an area with common seating for all customers of the businesses that operate there. Both of these additional fees will be paid on an annual basis and each fee will be based on $15.00 per square foot of leased space. The 16 lessees operating in the food court area, leasing a total of 16,139 square feet would pay both the Tenant Infrastructure Fee and the Food Court Fee, for a total of $30.00 per square foot of leased space. These fees are not subject to CPI adjustments as they were set at a level that would enable the Airport's costs to be amortized for improvements for Tenant Infrastructure and the Food Court over the full ten-year term of the leases (see Airport Infrastructure Improvements section below). Neither of these fees is subject to suspension periods due to a Severe Decline in Enplanements.

Projected Revenues: Total annual projected revenues for the first full year of operation based on the MAG, Tenant Infrastructure Fee, and Food Court Annual Fee to be paid by the 28 lessees to the Airport are summarized in the table below:

Table 3: Minimum Total Annual Revenues Under the Proposed Direct Lease Program

Category	No. of Lessees	Square Footage	Cost Per Square Foot	Minimum Annual Rent Payment to the Airport from FY 2005-2006 Through FY 2014-2015	
MAG	28	48,438	$40.00		$1,937,520*
Tenant Infrastructure Annual Fee	28	48,438	$15.00	$726,570	
Food Court Annual Fee	16	16,139	$15.00	242,085	
Subtotal					$968,655
Minimum Total Annual Revenues:					**$2,906,175**

*This amount is subject to suspension periods due to Severe Decline in Emplanements.

The Airport reports in Attachment V, that revenue projections for the Direct Lease program were developed by the Airport staff and reviewed by a consultant to the Airport, Leigh Fisher Associates, Inc., based on the enplanement projections developed by the Airport. The enplanement projections are based on FY 2002-2003 actual enplanements and are assumed to grow at an annual rate of 3 percent. According to Mr. Pfeiffer, this assumption results in passenger enplanement projections which are more conservative than those forecast by J.F. Brown for the 12-year period from FY 2004-2005 through FY 2015-2016. J.F. Brown is an aviation consulting firm that is under contract to the Airport and provides monthly passenger enplanement forecasts. Based on these underlying assumptions, the Airport estimates that they will exceed the MAG established for the Direct Lease Program of $1,937,520, for all forecasted years including the transitional year of FY 2004-2005 when all the establishments are not yet in operation. This is summarized in the table below:

Table 4: Projected Revenue to the Airport Over 12 years Under the Proposed Direct Lease Program Based on the MAG and the Percentage of Gross Revenues

Fiscal Year	Rent Based on MAG *	Projected Rent Based on Percentage of Gross Revenues	Amount Percentage Rent Exceeds MAG
FY 2004-2005	$1,937,520	$3,637,000	$1,699,480
FY 2005-2006	1,937,520	5,204,000	3,266,480
FY 2006-2007	1,937,520	5,564,000	3,626,480
FY 2007-2008	1,937,520	5,946,000	4,008,480
FY 2008-2009	1,937,520	6,353,000	4,415,480
FY 2009-2010	1,937,520	6,795,000	4,857,480
FY 2010-2011	1,937,520	7,253,000	5,315,480
FY 2011-2012	1,937,520	7,703,000	5,765,480
FY 2012-2013	1,937,520	8,163,000	6,225,480
FY 2013-2014	1,937,520	8,652,000	6,714,480
FY 2014-2015	1,937,520	9,169,000	7,231,480
FY 2015-2016	1,937,520	10,198,000	8,260,480
Totals	$23,250,240	$84,638,000**	$61,387,760**

*MAG does not include annual adjustments based on CPI and enplanement growth. Average growth of 3 percent annually would increase total MAG over lease term by $4,247,101 or 18.3 percent from $23,250,240 to $27,497,341

** Rounded.

As shown in Table 4 above, the Airport projects that over a twelve-year lease period, total projected percentage rent of $84,678,000 will exceed the total MAG of $23,250,240 by $61,387,760.

Source: Airport Preliminary Projections

The actual revenues received under the existing Master Lease Program during the five-year period from FY 1999-2000 through FY 2003-2004, are shown in the table below. Revenues to the Airport under the Master Lease program hit their peak in 2000 and prior to September 11, 2001 they remained above the Master Lease MAG of $3,338,839. However, following the events of September 11, 2001, gross revenues declined and the amount paid to the Airport was only the MAG of $3,338,839.

Table 5: Actual Rent Received Under the Existing Master Lease Program

Calendar Year	Actual Percentage Rent Paid to the Airport
1999	$6,541,670
2000	7,212,283
2001	5,133,843
2002	4,651,804
2003 *	3,391,979

* Calendar year 2003 percentage rent paid is for nine months through September 30, 2003. A straight line projection for twelve months based on the nine month actual percentage rent results in total projected rent of $4,522,635.

Source: Airport Financial Reports

Term of Leases: The standard term of the 28 leases is ten years, with one two year option, plus construction periods of up to 90 days for non-food court establishments and 120 days for food court establishments (see "Tenant Improvements" below). Mr. Pfeiffer advises that the 28 proposed leases would commence between September 1, 2004 and September 1, 2005 as the tenant improvements are completed and their spaces become available. Each lease would have a ten-year term from the date that the lessee begins operations in their improved site.

Right of Renewal: For each lease, there is a one two-year option to extend the term, for a total lease term of 12 years, to be exercised at the Airport's discretion.

Utilities and Janitorial Services Each lessee pays the Airport for the costs of all utilities. Janitorial services are the responsibility of the lessees who have the option of either performing such work themselves, contracting for janitorial services or paying the Airport to provide janitorial services.

Airport Infrastructure Improvements: The Airport will perform various construction work on behalf of the 28 lessees at an estimated total cost of $14,800,000 to be reimbursed by the lessees through the payment of annual Tenant Infrastructure and Food Court Fees to the Airport, as previously described. The Airport is funding these costs from previously appropriated and unexpended revenue bond capital improvement monies. Mr. Kevin Kone of the Airport estimates the principal and interest payments for the total $14,800,000, reflecting an average interest rate of 5.5 percent and amortization over 20 years, will be $972,000 annually. This annual amount of $972,000 would be almost entirely reimbursed from the $968,655 of Tenant Infrastructure

Fee and Food Court Fee revenues that would be received annually from the lessees.

According to Mr. Pfeiffer, the Airport is undertaking these Airport infrastructure improvements because the Airport's leased premises for existing food and beverage spaces do not adequately meet current standards and building codes for food preparation.

Tenant Improvements: During the first five years of the proposed leases, each of the 28 proposed leases would require the lessees to invest a minimum of $250 per square foot to refurbish, redecorate and modernize the public area of their leased space(s) over and above the $14,800,000 of Infrastructure Improvements noted above. This minimum of $250 per square foot cost represents a cumulative investment by the 28 lessees of $12,109,500 for the 48,438 square feet of leased space. After the fifth anniversary of the Rent Commencement Date, the 28 lessees would again be required to refurbish, redecorate and modernize the interior and exterior of the public area of their leased space(s) at a minimum cost of one half of their initial investment, or an additional minimum cumulative investment of $6,054,750 based on $125 per square foot. The Airport Director may waive or suspend this latter requirement if the Airport Director is satisfied with the maintenance program for any individual lease.

Security Deposit: Each of the 28 lessees are required at all times to maintain a security deposit of no less than 50 percent of their MAG, cumulatively totaling $1,937,520, resulting in a cumulative deposit amount of $968,760. As the MAG is adjusted on the Anniversary Date, each lessee will be required to increase their security deposit accordingly on the anniversary date of their individual lease, which will vary due to the lessees' staggered start dates.

Background: Attachment VI, provided by Mr. Pfeiffer, provides background information of the history leading up to the proposed Direct Lease Program and an explanation of why this approach was selected over the Master Lease Program currently utilized by the Airport Commission.

Comments:

The Current Master Lease Program Compared to the Proposed Direct Lease Program

1. Host International, Inc., whose lease expires on August 31, 2004, is the Master Tenant under the existing Domestic Terminals Food and Beverage Master Lease Program. Host was selected by the Airport through a competitive bid process. The original term of the current master lease commenced in two stages: (a) on December 1, 1976 for in-flight consumption by airline passengers (17-year term), and (b) on September 1, 1979 for Terminal Building Complex sales (15-year term), with the master lease continuing until August 31, 1994. The lease had one option for extension for an additional ten-year period at the Airport's discretion. On August 31, 1994, the Airport Commission exercised this option and extended the lease to August 31, 2004. Annual rent for this master lease is the higher of the MAG of $3,338,839 or, if higher than the MAG, the sum of the following percentages: 9.24 percent of food and non-alcoholic beverage sales and 15.24 percent of alcoholic beverage sales.

2. The premises under the current master lease with Host International, Inc. total approximately 105,141 square feet of leaseable space in the Domestic Terminals. This is 56,703 square feet more space than the 48,438 square feet to be leased to the 28 lessees under the proposed Direct Lease Program. Although actual leased space under the Direct Lease Program has been reduced by 56,703 square feet, according to Mr. Pfeiffer the actual revenue generating leased space has increased by 7,910 square feet. Mr. Pfeiffer advises that this is because that out of the 105,141 square feet of leased space under the original master lease, there is 64,613 square feet of non-revenue generating space such as office space, storage space, common area space, employee locker rooms, a commissary, and an employee cafeteria and only 40,528 square feet of revenue generating space. Under the new Direct Lease Program, all 48,348 square feet of leased space is revenue generating and lessees will be paying for storage under separate month-to-month permits. The Airport is also planning to rent the currently occupied office space and employee locker rooms to Direct Lease Program lessees and other Airport lessees

under separate month-to-month lease agreements. The Airport expects to rent such office, employee locker room, and commissary space at approximately $34.00 per square foot per year, but has not yet determined the final rent or selected the specific future lessees. Therefore, the Airport is currently unable to estimate the future annual revenues from renting such premises.

3. Under this proposed Direct Lease Program, the Airport is guaranteed to receive total gross revenues of at least $2,906,175 (see Table 3 above) annually, comprised of the MAG in the amount of $1,937,520, Tenant Infrastructure Fee revenues in the amount of $726,570, and Food Court Fee revenues in the amount of $242,085. The guaranteed annual revenue under the Direct Lease program is $432,664 less than the guaranteed revenue, or MAG of $3,338,839 under the Master Lease program currently in place with Host International, Inc. However, as shown in Attachment VII provided by Mr. Pfeiffer, except for FY 2004-2005, for each year between FY 2005-2006 and FY 2015-2016, the Airport projects that the net revenues achieved under the percentage rent provision of the proposed Direct Lease Program would exceed the current Master Lease Program MAG of $3,338,839. The one year in which this is projected to not occur is the transitional first lease year (Sept. 1, 2004, through August 31, 2005) when only a portion of the establishments will be in operation for the full year. In the first lease year, total revenue based on percentage of sales is projected to be $3,637,000 and net revenue after debt service and the Leigh Fisher contract payment is projected to total $3,132,000 which is $207,839 less than the current MAG of $3,338,839.

4. As shown in Attachment VII, under the Direct Lease Program revenues based on percentage rent are projected to surpass the Direct Lease program MAG of $1,937,520 each year, including the FY 2004-2005 which is the transition year when all lessees are not yet in operation for the full year.

Under the existing Master Lease program, if it were to remain in place, Mr. Pfeiffer projects gross revenues to grow in line with the growth in enplanements but the

revenue per enplanements will remain flat at $3.66 due to the lack of investment to improve infrastructure. During the same 12-year period FY 2004-2005 through FY 2015-2016, the cumulative percentage revenues under the existing Master Lease Program, if it were to continue, are projected to total $66,646,206 as shown in Attachment VII. Additionally, as is illustrated in Attachment VII, the projected percentage revenues, under a continuation of the Master Lease program are projected to exceed the Master Lease MAG of $3,338,839 in each year.

Prior to making a decision to adopt a Direct Lease Program, as is currently being proposed, the Airport began pursuing a new Master Lease/Developer Program to replace the current Master Lease program with Host International. However, according to Mr. Pfeiffer, during the course of extensive negotiations with Marketplace, the developer ranked first for a new Master Lease/Developer Program, it became apparent to the Airport that the Airport could redevelop the Program on a more cost-effective and timely manner by moving forward under a Direct Lease Program, rather than a Master Lease/Developer model. Under a Master Lease/Developer model, the Airport would compensate the developer for any Infrastructure Investments, debt service costs to finance infrastructure improvements, and for a percentage of the MAG. Additionally, the Developer would share in a portion of the sub-lessees' gross revenues at a rate of 20%. Consequently, cumulative revenues based on percentage of gross sales were projected to be $48,886,839 under the Master Lease/Developer program, considerably lower than either the existing Master Lease Program at a projected $66,646,206 or the proposed Direct Lease Program at a projected $84,638,000, during the period of FY 2004-2005 through FY 2015-2016.

The table below summarizes the Airport's comparison of projected revenue under the three Food and Beverage Concessions programs:

Table 6: Comparison of Cumulative Rent Projected by the Airport for the twelve-year period FY 2004-2005 through FY 2015-2016

Rent To The Airport	Existing Master Lease Program	Originally Proposed Lease/ Developer Program	Subject Proposed Direct Lease Program
Based on tiered Percentage of sales	$66,646,206	$48,886,839	$84,638,000
MAG	$40,066,068	$19,200,000	$23,250,240
Annual MAG	$3,338,839	$1,600,000	$1,937,520

Source: Airport Revenue Projections

5. The Budget Analyst contacted the Leasing Managers of the Denver, Portland, and Dallas Fort Worth Airports, which all have Direct Lease Programs in place for their food and beverage concessions. According to the Leasing Managers in charge of those Direct Lease Programs, each of those three Airports included price in their competitive bid processes, such that the prospective lessees were required to include bids for their tiered percentage rent structure and for their MAG. In contrast, San Francisco International Airport did not did not competitively bid either its MAG or percentage rent in its competitive processes for the proposed Direct Lease Program. Instead, the Airport developed the tiered revenue percentage structure discussed above and prescribed the MAG of $40 per square foot and the percentage rent structure in the Airport's Request for Proposals document. Attachment III is a memo from the Airport outlining their approach to developing this price structure.

One reason for taking this approach, according to Mr. Pfeiffer, was because of the Airport's desire to include a large number of Disadvantaged Business Enterprises (DBEs) and including competitive bids based on price and revenue potential to the Airport may have excluded many of DBEs. However, the Budget Analyst notes that without a competitive selection process that includes the MAG and the percentage rent revenue factors, it is impossible to determine whether the proposed leases will maximize

revenue to the Airport. Further, the Budget Analyst notes that the first listed goal and objective of the proposed leasing program, as shown in Attachment VI from the Airport, is to "maximize revenue to the Airport." Based on data provided by the Airport, 21 of the 28 proposed lessees are registered DBEs but the remaining 7 lessees are not DBEs. Attachment VI, pages 5 and 6 provides a listing of the proposed lessees who are DBE.

Attachment III from the Airport reiterates this goal to maximize revenues. The Budget Analyst inquired as to the method the Airport used to determine that the selected lessees would achieve maximum revenue without a competitive selection process for the MAG and the percentage rent revenue factors. In response, Mr. Pfeiffer states in Attachment IX that:

> " The Blue Ribbon Panel was highly focused on selecting the best proposer for each location, based on the perceived ability of the proposer to produce high sales based on its track record, proposed concept, menu, experience, reputation, business plan, and other information requested in the RFP."

In the professional judgment of the Budget Analyst, the evaluation of revenue potential and selection process of the Blue Ribbon Panel would have been enhanced if bidders had been instructed to include individual bids for the MAG and percentage rent they would be willing to pay.

6. The Budget Analyst has found that the Denver Airport has a Direct Lease Program which includes 114 lessees and is achieving an average effective rent of 13 percent of total gross revenues from all such lessees. The effective rent is the amount of rent that the Denver Airport receives as a percentage of total gross revenues generated by the lessees. The Dallas Fort Worth Airport is achieving an average effective rent of 11.5 percent of total gross revenues from their lessees and the Portland Airport is achieving an average effective rent of 13.5 percent of total gross revenues from these lessees. In comparison, the existing Food and Beverage Direct Lease Program at San Francisco's International Terminal realizes an effective rent of an average of only 8.5 percent and the subject, proposed Direct Lease Program at Domestic Terminals 1 and 3 would receive an average of 9.3 percent of gross

sales based on the projected revenues provided by the Airport in Attachment VII.

To illustrate the revenue impact of these differences, if each of these Airports' Direct Lease Program lessees generated, as an example, $50,000,000 in gross sales, the total annual rent payable to their respective Airports would be as noted in the table below, based on these average effective rent percentages:

Table 7: Comparison of Effective Percentage Rent for Airports with Food and Beverage Concession Using a Direct Lease Program

Airport	Annual Gross Sales	Effective Pct. Rent	Annual Total Rent
Portland	$50,000,000	13.5%	$6,750,000
Denver	$50,000,000	13.0%	$6,500,000
Dallas Fort Worth	$50,000,000	11.5%	$5,750,000
SF Domestic (Projected)	**$50,000,000**	**9.3%**	**$4,650,000**
SF International	$50,000,000	8.5%	$4,250,000

The Tenant Selection Process

7. Mr. Pfeiffer advises that since the Airport decided to proceed with a Direct Lease Program relatively late in the process, the Airport did not have enough staff who were sufficiently experienced in direct lease programs to undertake the work themselves. Therefore, according to Mr. Pfeiffer, the Airport needed to retain Leigh Fisher Associates, Inc. to act as an expert consultant. Leigh Fisher Associates, Inc. is currently being used by the Direct Lease Program at Denver International Airport. Mr. Pfeiffer advises that the Airport has assigned three staff members to work directly with Leigh Fisher Associates, Inc. so that Airport staff will have the in-house expertise necessary to assume responsibility for managing the Direct Lease Program, and any future direct lease programs developed by the Airport, after Leigh Fisher Associates, Inc.'s contract expires.

8. According to the Airport, the 28 Lessees were selected by a "Blue Ribbon Panel" comprising community members with combined relevant expertise using a two stage

Request for Qualifications and Request for Proposal process. As described in Attachment VIII, the Airport states that Leigh Fisher Associates, Inc., as the Outreach Manager, conducted extensive outreach in the San Francisco Bay Area community to provide information on the business opportunities available to prospective tenants after improvements are made to the Domestic Terminals Food and Beverage facilities. Advertisements were placed with 16 outreach publications of which 11 are minority publications. Press releases were sent to over 70 Bay Area media contacts. During the Request for Qualifications phase, selected operators were asked to submit a short statement of their qualifications in terms of experience and revenue requirements. During the Request for Proposals phase, operators were asked to submit a proposal outlining their experience, Disadvantaged Business Enterprise (DBE) status, and other criteria. Based on this information, the Blue Ribbon Panel identified recommended lessees. The 28 recommended lessees were selected through the process described above. Prospective lessees were requested to submit their bids based on the tiered percentage revenue structure as set by the Airport and the $40 per square foot MAG as set by the Airport and as prescribed in the Airport's Request for Proposals document. According to Mr. Pfeiffer, the tiered percentage revenue structure and the $40 per square foot MAG were calculated by the Airport based on the experience with similar food and beverages establishments under their Direct Lease Program at the International Terminal. Attachment VIII from the Airport provides further details.

9. The Budget Analyst notes that the Airport's request for proposals did not weight the factors on which the Bidders were rated by the Blue Ribbon Panel, and did not specifically include a factor related to the Airport's first goal and objective to "maximize revenue to the Airport," as stated in Attachment VI. Further, the Blue Ribbon Panel was not asked by the Airport to evaluate each bidder's percentage rent revenue potential (i.e. their ability to exceed their MAG requirements). Therefore, as previously noted, the Budget Analyst found that the lessees were <u>not</u> asked to compete by providing bids on individual MAGs or their individual percentage rent structures. In both cases, those financial structures were determined and set by the Airport at the outset of the lessee selection process. Given

that both the MAG and the percentage revenue structures were already set by the Airport, there is no way of knowing if individual bidders would have exceeded these rent requirements in their individual bids through a competitive bidding process.

Fair Market Value

10. As stated in Attachment V provided by Mr. Pfeiffer, given the current economic conditions in the City and based on industry feedback, Mr. Pfeiffer advises that the subject MAG represents a fair market rate. Leigh Fischer Associates, Inc have verified this conclusion according to Mr. Pfeiffer. According to Attachment III provided by Mr. Pfeiffer, the $40 per square foot MAG is "well above market rents in the Bay Area for Food and Beverage operators, which run $20-$25 per square foot on average". However, the Budget Analyst notes that an Airport facility location for such food and beverage businesses presents unique advantages to operators that are not generally available to other operators in the Bay Area.

11. The Budget Analyst notes that the Airport is holding security deposits of $20,000 from each of an additional 41 operators who would like to enter into food and beverage leases under the Direct Lease Program at Domestic Terminals 1 and 3. This indicates to the Budget Analyst that there may be an opportunity for the Airport to renegotiate both the MAG and the tiered revenue percentages. The inclusion of percentage rent revenue potential in the competitive bid information may alter the result in terms of which lessees would be chosen and what revenues would be earned as a result. Even if the result was unchanged, such a review would validate the 28 proposed lessees who were selected by the Airport.

Response to Finance and Audit Committee Questions of November 19, 2003

12. In response to inquiries made by the Finance and Audits Committee when this proposed resolution was heard at their meeting of November 19, 2003, the Airport has provided a memo dated November 24, 2003 (see Attachment X). As stated in Attachment X the Airport believes that the effective rent shown on Table 7 above should be revised from 9.3% to 11.1% to account for the tenant infrastructure fee and food court fee revenue that

the Airport will receive from the tenants because none of the other airports included in the Table 7 comparison use cost recovery charges, which the Airport is charging tenants separately, for airport infrastructure improvements. Mr. Pfeiffer states that it is the standard practice for airports to recover the costs of essential infrastructure through its percentage rents. However, the Budget Analyst notes that none of the airports surveyed have used cost recovery charges for their infrastructure because they require their Concessionaires to take direct responsibility for the costs of building out of their own spaces or justify their construction projections through a market rent structure, as noted below:

Denver Airport: This is a relatively new Airport built within the last ten years, and the infrastructure costs for initial construction were of course significant. Concessionaires performed tenant improvements at their own cost. The Denver Airport gave the Concessionaires raw shell space and the tenants paid for improvements themselves. The Denver Airport also assigned one staff member to ensure that the build-out was done in compliance with laws and regulations. The Denver Airport provides some services at the cost of the Denver Airport, but only the normal maintenance and janitorial associated with the spaces.

Portland Airport: The Portland Airport conducted a terminal expansion project within the last ten years and construction costs for the terminal expansion project, which includes a portion related to the Food and Beverage Concessionaire space, were significant. The Portland Airport does not have add-on fees to recoup the construction costs related to improvements to the Food and Beverage Concessionaire space but informed the Budget Analyst that such costs are recovered through their Market Based Revenue structure.

Dallas/Fort Worth: The Dallas/Fort Worth Airport provides their concessionaires with "sheet rock ready" space. According to the Airport, any construction costs they incurred to get the space ready were passed on to the concessionaires. These charges ranged from $65.00 to $75.00 per square foot of occupied space and were passed on to the concessionaire for payment at or before the signing of the lease. Upon taking over the space, it

was again the responsibility of the individual Concessionaires to cover any additional costs of improving the space themselves.

As noted above, the proposed leases require tenant improvements of at least $250 per square feet during the first five years of the lease and $125 per square feet after the fifth year.

Mr. Pfeiffer also states that there are many costs that the Airport Concessionaires incur due to specific laws and regulations of the City and County of San Francisco, such as Equal Benefits Ordinance, Minimum Compensation Ordinance, and Health Care Accountability Ordinance. The Airport estimates that these costs are in the range of three percent of effective rent. The Budget Analyst notes that the precise actual costs have not been calculated and compared to other Airports, but have been estimated by the Airport based on anecdotal information provided by prospective tenants as three percent of effective rent, which Mr. Pfeiffer claims increases effective rent further from 11.1 percent to 14.1 percent.

The Airport anticipates realizing additional rental revenues in the Domestic Terminals from the leasing of support and storage space to each food and beverage tenant. Space will be rented at the Airport's Category IV established rate of $32.28 per square foot per year. Based on preliminary discussions with Concessionaires, Mr. Pfeiffer estimates that approximately 10,000 square feet will be leased at this rate yielding an additional $322,800 annually in revenue to the Airport. Mr. Pfeiffer estimates that an additional 4,360 square feet of office space in the Domestic Terminals will be leased at the Category II established rate of $128.82 per square feet per year. This would result in $561,655 annually in additional in revenue. The Budget Analyst notes that total revenue from these sources is expected to be $884,455. Mr. Pfeiffer includes this additional revenue in the FY 2005 - 2006 revenue projection for the Direct Lease Program and compares it to the FY 2003-FY 2004 revenue projected under the Master Lease Program.

The Budget Analyst agrees that these calculations are correct, but notes that such space has not been leased as of this date and therefore, such revenue may not be fully realized in the amount estimated by the Airport.

Summary of the Issues Noted by the Budget Analyst:

In summary, the Budget Analyst raises the following issues pertaining to the proposed Direct Lease Program:

- The 28 lessees were not asked to competitively bid on either their individual MAGs or their individual percentage revenue structures because of the Airport's desire to include a large number of Disadvantaged Business Enterprises (DBEs) and the Airport's contention that competitive bids based on price and revenue potential to the Airport may have excluded many DBEs. According to the Airport, 75 percent or 21 of the 28 lessees are DBEs and nine are not DBEs. The Airport at the outset of the tenant selection process, set both the MAG and percentage rent structure. Given that both the MAG and the percentage revenue structures were set by the Airport, without the utilization of competitive bidding procedures, there is no way of assessing whether individual bidders would have exceeded these rent requirements, thereby resulting in greater revenue potential for the City. Therefore, it is not clear that the level of rent payments the Airport will receive under this Direct Lease Program will achieve the Airport's objective to "maximize revenues to the Airport."

- Discussions with three other airports which have Direct Lease Programs revealed that their selection processes required a competitive bidding process for both the tiered revenue percentage structure and the MAG proposals. In the case of the Denver Airport, their average effective rent was 13 percent, Dallas Fort Worth had an average effective rent of 11.5 percent, and Portland had 13.5 percent. This is compared to a projected 9.3 percent under this proposed Direct Lease Program at San Francisco International Airport.

- Although the Airport claims that the benefit of going to the Direct Lease Program is for the Airport to gain direct control over the food and beverage leases, the Budget Analyst notes that the Airport is in fact using a third party, Leigh Fisher Associates, Inc., to undertake the outreach for, and selection of, the tenants and the related facilities space planning. Furthermore, the Budget Analyst notes that the Leigh Fisher Associates, Inc. contract, at a total contract cost of $1,334,000, is extendable and that the Airport is currently

considering whether it wishes to contract management services consultants in the future.

- The Airport expects to rent office, employee locker room, and commissary space at approximately $32.00 per square foot, but has not yet determined the final per square footage or selected the specific future tenants. Therefore, the Airport is currently unable to estimate the future annual revenues from these spaces.

- The guaranteed revenue in the amount of $2,906,175 annually under the proposed Direct Lease Program is $432,664 less than the existing MAG of $3,338,839 under the Master Lease Program currently in place with Host International, Inc. However, as indicated in Attachment VII provided by the Airport, each year between FY 2005-2006 and FY 2014-2015, the Airport projects that the net revenues achieved under the percentage rent provision of the proposed Direct Lease Program would exceed the current Master Lease Program MAG of $3,338,839.

- The Airport currently holds deposits of $20,000 each from 41 operators interested in being a part of this Direct Lease Program. This indicates that there may be an opportunity for the Airport to renegotiate both the MAG and the tiered revenue percentages.

- Issues raised by the Finance and Audits Committee at its meeting of November 19, 2003 concerning this proposed resolution are discussed in Comment 12 above and Attachment X, a memorandum issued by the Airport.

The Budget Analyst acknowledges that the Airport's desire to include a large number of Disadvantaged Business Enterprises is an appropriate policy. However, from a financial perspective, and from the standpoint of maximizing revenue to the Airport, the Budget Analyst cannot recommend approval of the proposed resolution because: a) the Airport did not competitively bid the lessees' individual MAG and percentage rent; and, b) a survey of other airports operating direct leasing programs found that the San Francisco Airport would realize substantially lower effective percentage rent under the proposed direct leasing program. As discussed in Comment

12 above, and Attachment X, the Airport believes that tenant infrastructure and food court fees and costs incurred by tenants related to such laws as the Equal Benefits Ordinance, Minimum Compensation Ordinance, and Health Care Accountability Ordinance effectively improve the effective rent realized by the Airport. In addition, the Airport anticipates realizing additional rental revenue for space in the Domestic Terminal of up to $884,455 annually.

The Budget Analyst continues to conclude that the Airport has not clearly demonstrated that it is maximizing potential revenue from concessionaires in the proposed 28 Direct leases, but considers approval of the proposed resolution to be a policy matter for the Board of Supervisors due to the additional information provided by the Airport and the policy consideration of maximizing DBE participation in the proposed leases.

Recommendations: Approval of the proposed resolution is a policy matter for the Board of Supervisors.

							First Year Revenues					T.I.
Lease No.	Lessee	Concept	Category	Food Court SqFt	Non Food SqFt	Total SqFt	MAG	TI Fee	PC Fee	Initial Promo Fee	Total Annual Revenue	Min. Invest $
1	Lori's Diner International, Inc.	Lori's Diner	Quick Serve	2,044	0	2,044	$81,760	$30,660	$30,660	$2,044	$145,124	$511,000
2	Andale SFO	Andale Taqueria	Quick Serve	1,814	0	1,814	$72,560	$27,210	$27,210	$1,814	$128,794	$453,500
3	Sanraku, Inc.	Sanraku	Quick Serve	1,337	0	1,337	$53,480	$20,055	$20,055	$1,337	$94,927	$334,250
4	Meyers Holdings LLC, Firewood Café, Series I-II	Firewood Café	Quick Serve	1,333	0	1,333	$53,320	$19,995	$19,995	$1,333	$94,643	$333,250
5	Fung Lum Express, LLC.	Fung Lum Express	Quick Serve	1,767	0	1,767	$70,680	$26,505	$26,505	$1,767	$125,457	$441,750
6	Bayport Concessions, LLC	Willow Street Woodfire Pizza	Quick Serve	633	1,440	2,073	$82,920	$31,095	$9,495	$2,073	$125,583	$518,250
7	Bay Area Restaurant Group Joint Venture	Noah's Bagels, Max's Eatz	Quick Serve	669	1,440	2,109	$84,360	$31,635	$10,035	$2,109	$128,139	$527,250
8	GDDC, Inc.	Subway	Quick Serve	1,307	0	1,307	$52,280	$19,605	$19,605	$1,307	$92,797	$326,750
9	Tomokazu Japanese Cuisine Inc.	Tomokazu	Quick Serve	898	0	898	$35,920	$13,470	$13,470	$898	$63,758	$224,500
10	Jonathan Leong L&H, LLC.	Luna Azul	Quick Serve	506	0	506	$20,240	$7,590	$7,590	$506	$35,926	$126,500
11	H. Young Enterprises, Inc.	Just Desserts	Quick Serve	230	0	230	$9,200	$3,450	$3,450	$230	$16,330	$57,500
12	WSE Group, Inc.	Burger King	Fast Food	816	1,002	1,818	$72,720	$27,270	$12,240	$1,818	$114,048	$454,500
13	San Francisco Soup Co. Inc.	SF Soup Co.	Café'	826	0	826	$33,040	$12,390	$12,390	$826	$58,646	$206,500
14	Guava & Java	Guava & Java	Café'	400	800	1,200	$48,000	$18,000	$6,000	$1,200	$73,200	$300,000
15	J. Avery Enterprises	Klein's Deli Café	Café'	0	1,160	1,160	$46,400	$17,400	$0	$1,160	$64,960	$290,000
16	Gotham Enterprises, LLC SFO Coffee IV-VI Series	Peet's Coffee	Specialty Coffee	727	310	1,037	$41,480	$15,555	$10,905	$1,037	$68,977	$259,250
17	H. Young Enterprises, Inc.	Just Desserts	Café'	0	1,334	1,334	$53,360	$20,010	$0	$1,334	$74,704	$333,500
18	Susie Lee Tong Enterprises, Inc.	Golden Gate Bar and Snacks	CD/Bar	0	1,616	1,616	$64,640	$24,240	$0	$1,616	$90,496	$404,000
19	Lady Luck Gourmet, LLC	Go Bar	CD/Bar	0	825	825	$33,000	$12,375	$0	$825	$46,200	$206,250
20	Creative Host Services, Inc.	TGI Friday's	CD/Bar	0	3,501	3,501	$140,040	$52,515	$0	$3,501	$196,056	$875,250
21	D-Lew Enterprises, LLC	Perry's	CD/Bar	0	3,460	3,460	$138,400	$51,900	$0	$3,460	$193,760	$865,000
22	Burger Joint, Inc.	Mission Bar & Grill	CD/Bar	0	1,726	1,726	$69,040	$25,890	$0	$1,726	$96,656	$431,500
23	Creative Host Services, Inc.	Alcatraz Brewing Company	CD/Bar	0	2,618	2,618	$104,720	$39,270	$0	$2,618	$146,608	$654,500
24	Emporio Rulli, Inc.	Emporio Rulli Grande Caffe	CD/Bar	0	2,860	2,860	$114,400	$42,900	$0	$2,860	$160,160	$715,000
25	Bay Area Restaurant Group Joint Venture	Buena Vista Café	CD/Bar	0	2,968	2,968	$118,720	$44,520	$0	$2,968	$166,208	$742,000
26	D-Lew Enterprises, LLC	Il Fornaio	CD/Bar	0	2,425	2,425	$97,000	$36,375	$0	$2,425	$135,800	$606,250
27	Bay Area Restaurant Group Joint Venture	Gordon Biersch	CD/Bar	0	2,814	2,814	$112,560	$42,210	$0	$2,814	$157,584	$703,500
28	Andre-Boudin Bakeries, Inc.	Boudin Bakery & Café	Quick Serve	832	0	832	$33,280	$12,480	$12,480	$832	$59,072	$208,000
	Totals:			16,139	32,299	48,438	1,937,520	726,570	242,085	48,438	2,954,613	12,109,500

Attachment II

San Francisco International Airport

October 24, 2003

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Mr. Harvey Rose
Office of the Budget Analyst
1390 Market Street, Suite 1025
San Francisco, CA 94102

Subject: Airport's Domestic Terminals Food and Beverage Redevelopment Program - Description

Dear Mr. Rose:

A "Direct Lease Program" is one where the Airport, rather than a master concessionaire/developer, oversees the outreach and selection of the tenant operators, enters into the direct leases with such operators, and thereafter manages such operators. This model, which is being used for the Domestic Terminals Food and Beverage Redevelopment Program, should yield greater participation by local and Disadvantaged Business Enterprise (DBE) operators, greater control by the Airport, improved customer service and quality, and higher financial returns to the Airport.

The proposed resolution would authorize the Airport to execute 28 ten-year leases under a direct leasing model, for approximately 48,438 square feet of space in various locations in Terminals 1 and 3 of the Airport. Under these proposed leases, 28 lessees will operate 42 food and beverage establishments in the Airport's domestic terminals. This square footage is based on current building specifications and will be re-measured and restated after the tenant infrastructure is completed and prior to finalizing the leases.

Very truly yours,

David W. Pfeiffer
Associate Deputy Director
Revenue Development

San Francisco International Airport

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October 31, 2003

Mr. Harvey Rose
Office of the Budget Analyst
1390 Market Street, Suite 1025
San Francisco, CA 94102

Subject: Airport's Domestic Terminals Food and Beverage Redevelopment Program – Rent Structure

Dear Mr. Rose:

The Minimum Annual Guarantee (MAG) and tiered rent structure for the Domestic Terminal Food and Beverage Program are the business terms approved by the Airport Commission. These terms follow the same footprint that the Airport Commission approved for the International Terminal Food and beverage Program that was put in place when that terminal opened in December 2000. This structure was developed by Marketplace Development who was the program manager for the International Terminal Food and Beverage Program, and was designed to provide reasonable return to both the tenant and while encouraging excellent performance by the food and beverage operators. The four categories of food and beverage offerings were determined by the differing levels of profit margins which can be expected from good operators. In this structure, tenants are protected against a severe drop in enplanements while ensuring that Airport shares in the increased revenue when enplanements rise.

The MAG will be $40 per square foot annually, to be adjusted annually by CPI adjustment but never lower than the initial $40. The rent due will be the greater of the MAG or the sum of the tiered percentage rent. The first level of sales (the first breakpoint) is the first tier of percentage rent. Beyond the first breakpoint, a higher percentage will be levied on all sales up to a second breakpoint. Finally, all sales beyond the second breakpoint will be charged to a third percentage. These tiered rents were developed after market studies and incorporate in the MAG, additional Airport charges, development and operating costs while ensuring tenants abilities to recover their investment over the term of lease. Marketplace used Micah Brode a San Francisco based food and beverage consultant to help develop these assumptions.

Under the Domestic Terminal Food and Beverage Program, the tenants also incur the infrastructure and food court recovery costs, which increase the effective MAG to between $55 and $70 per square foot per annum. These are well above market rents in the Bay Area for food and beverage operators, which run in the $20 to $25 per square foot, range average.

Mr. Harvey Rose
October 31, 2003
Page 2

The goals from the Airport Commission were to maximize revenue potential, minimize costs and risks, while allowing the Airport to maintain the highest level of control over the program. The Commission also set a goal of 80% local operators with a minimum of 50% DBE participation while developing a program that delivers the highest level of service to the traveling public. This program and slate of tenants meets the goals of the Airport Commission. Upon Board of Supervisors approval, we will be able to meet the Airport Commission's goals of having program in place by September 1, 2004 and execute a smooth transition from the current operator to the new operator without compromising service to passengers.

Sincerely,

David W. Pfeiffer
Associate ~~Deputy~~ Director
Revenue Development

cc: John L. Martin
Leo Fermin

San Francisco International Airport

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October 29, 2003

Mr. Harvey Rose
Office of the Budget Analyst
1390 Market Street, Suite 1025
San Francisco, CA 94102

Subject: Airport's Domestic Terminals Food and Beverage Redevelopment Program – Severe Decline in Enplanements

Dear Mr. Rose:

Following the events of September 11, 2001, the Airport adopted the Severe Decline in Enplanements language to all new concessions leases, as a methodology to address any other catastrophic event. The language was added to help market future concession leases and to make it more viable for businesses to participate. After feedback from many prospective tenants that the Airport is not a desirable environment to do business in light of the potential of other catastrophic events.

As directly related to the Domestic Terminal Food and Beverage leases, they are structured so that the tenants are paying a tiered rent structure unless their sales performance is below the base level break even point, which would make the Minimum Annual Guarantee (MAG) greater. In the event that enplanement levels dropped at the same percentage, as experienced on September 11, 2001, off of the operators Base Year Enplanements (2003 for this Program), then the tenant would pay percentage rent only.

The language provides a trigger for the MAG to be temporarily suspended when the enplanements in the specific Boarding Area decline by 20% for three consecutive months compared to the Base year enplanement when the individual leases was awarded. During the MAG suspension period, tenant will be required to pay percentage rent. Further, once there is enplanement stabilization for two consecutive months, then the MAG will be reinstated and pro rated accordingly.

Very truly yours,

David W. Pfeiffer
Associate Deputy Director
Revenue Development

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October 29, 2003

Mr. Harvey Rose
Office of the Budget Analyst
1390 Market Street, Suite 1025
San Francisco, CA 94102

Subject: Airport's Domestic Terminals Food and Beverage Redevelopment Program - Projections

Dear Mr. Rose:

Projections for the Direct Lease Program were developed by Airport staff and reviewed by Leigh Fisher Associates. This verification included validation of enplanement projections and assumed to grow at an annual rate of 3%. This conservative assumption results in passenger enplanements below the J.F. Brown forecast throughout the Fiscal Year 2004-2016 projection period. The J. F. Brown forecast is considered inappropriate because actual 2003 enplanements were below the J.F. Brown forecast, resulting in a considerable difference in the base year enplanements. However, the assumed growth rate of 3.5% is consistent with the near-term rate of growth forecast by J.F. Brown. Projections also include a nominal inflation assumption of 2.5% annually.

Transition Year

Fiscal Year 2004-2005 will be the transition year for the Domestic Terminals Food and Beverage Program. The Airport anticipates an estimated $3,637,000 in projected gross revenues to be realized by a combination of existing concession units taken over and managed "as is" by new tenants on an interim basis. In addition, new tenants will complete their construction and commence operations during the transition year as shown on the attached Interim Program Schedule. (The transition year service plan and the Interim Program Schedule are preliminary and subject to modification). For Fiscal Year 2004-2005, after the annual payment for principal and interest on the infrastructure debt ($487,500) and the cost of outreach ($443,000), net revenues are $3,130,000 for the interim year. This amount is $208,500 less than the revenue currently received under the Master Concession Lease. However, it should be noted that, because the Master Concession Lease is expiring in 2004, there would be outreach and leasing costs associated with any program the Airport were to implement.

Full Program Implementation

Fiscal Year 2005-2006 is the first stabilized year for the program when all 28 leases will be fully operational. The Airport projects it will receive lease revenues of $5,204,000 plus Tenant Infrastructure and Food Court cost recovery fees ($968,655) for total revenues of $6,172,655. After taking out the annual payment of principal and interest on a full year of infrastructure debt ($972,000) and outreach costs ($443,000), net revenues to the Airport are $4,756,000. This amount is $1,417,000 more than the current revenue under the Master Concession Lease.

As shown on the attachment entitled Revenue Comparison Report, beginning with Fiscal Year 2006 all new improvements should be in full operation and, after the principal and interest payment, should produce net revenues of $5,116,000.

Outreach costs are recovered from net revenues in the first three years of the program, and end after Fiscal Year 2007. The Airport, using existing Airport staff who were trained through their participation on the Food and Beverage Development Team, will assume tenant management responsibilities under the Concession Development and Management Department (CDM).

Revenues to the Airport are projected to continue growing 6% each year through Fiscal Year 2016, with corresponding improvements in net revenue, as noted in the Revenue Comparison Report.

Underlying Sales Assumptions

The International Terminal food and beverage program produced an increase in sales per enplaned passenger of nearly 60%, as well as an increase in gross revenues (sales) compared with the former international terminal. It is common for sales from redeveloped concession programs to improve by 25% or more.

Revenue to the Airport is driven by customer sales. In the International Terminal, the 60% sales increase was the result of quality offerings, motivated local ownership, street pricing, and a varied selection of established local restaurants.

The underlying assumption of increased passenger sales shown on the attached Revenue Comparison is a conservative 22%. If customers embrace the domestic terminal program as they have the International Terminal program, substantially higher sales and revenues could be achieved.

Tiered Rent Structure

Further, the tiered rent structure will provide increased revenue as volume increases (whether from increased sales to each passenger, or from faster growth/recovery in domestic passengers activity). Tenants will pay, and can afford to pay, more revenue as volume increases.

At the same time, the tiered rent structure provides greater resiliency for tenants should there be another catastrophic event that severely affects passenger activity, as experienced in 2001. The tiered rent structure with the lower set Minimum Annual Guarantee (MAG) allows tenants to remain viable should there be another shock to the airline industry. The MAG represents a fair market value especially when adding in the infrastructure cost of $15 per square foot and the food court costs of $15 per square foot where applicable. This is consistent with the MAG set for the International Terminal Food and Beverage Program.

The Board of Supervisors had recommended that the Airport not use a competitive process that resulted in unreasonably high MAGs. The tiered rent structure is responsive to this concern.

Very truly yours,

David W. Pfeiffer
Associate Deputy Director
Revenue Development

cc: John L. Martin
Leo Fermin

San Francisco International Airport

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October 24, 2003

Mr. Harvey Rose
Office of the Budget Analyst
1390 Market Street, Suite 1025
San Francisco, CA 94102

Subject: Airport's Domestic Terminals Food and Beverage Redevelopment Program - Background

Dear Mr. Rose:

The Food and Beverage Lease for the Domestic Terminals is currently with Host International, Inc. Host has been the master concessionaire since 1953. Annual rent for this lease is the higher of the MAG of $3,338,839 or the sum of the following rent percentages: 9.24% of food and non-alcoholic beverage sales and 15.24% of alcoholic beverage sales. The current premises totals approximately 105,141 square feet. This lease expires on August 31, 2004.

Based on the success of the International Terminal food and beverage program, the Airport Commission expressed a desire to have a program of similar quality for the domestic terminals when the current master concession lease expires in 2004. The International Terminal program features local established restaurateurs, high DBE participation, street pricing, and excellent quality, which resulted in an increase in per-passenger sales of 65% compared to the former International Terminal.

The Airport Director formed an Advisory Committee in April 2002 to assist in determining the best approach for providing food and beverage services. The Advisory Committee was given the following goals and objectives to consider in its deliberations:

- Revenue – maximize revenue to the Airport
- Costs – minimize cost and risk to Airport
- Airport Control – maintain the highest level of control over the program
- Worker Retention/Cross Training/Labor Card Check Rule – ensure that these issues are dealt with and are incorporated into the lease
- DBE/Local participation – develop program to enhance DBE and local participation
- Timing – ensure that a new Domestic Terminals Food and Beverage Program is in place by September 1, 2004

- Quality/Customer Service – develop a program delivering the highest level of service to the traveling public (on par with the International Terminal Program)
- Interim/Final Program Planning – develop a plan to ensure the smooth transition from current operator to new operator without compromising service.

The Advisory Committee

The Advisory Committee was comprised of the following Airport experts who served on the Committee on a *pro bono* basis:

- Mr. Jim Tyrell, Deputy Director of Aviation, Property Management and Business Development for the Philadelphia International Airport. Philadelphia uses a Master Developer approach.
- Mr. Joe Anderson, Manager, Concession and Business Development for the Minneapolis-St. Paul International Airport. Minneapolis-St. Paul uses a Master Concessionaire Program, supplemented by direct leasing.
- Mr. David Pfeiffer, Associate Deputy Director, Revenue Development for San Francisco International Airport. Mr. Pfeiffer was in charge of implementing the direct lease food and beverage program as a consultant with MarketPlace Development, and had played a key role in implementing the International Terminal Program. Mr. Pfeiffer was the non-voting moderator of the Committee.
- Ms. Eleanor Johns, member of the Mayor of San Francisco's staff (and is now a member of the San Francisco Airport Commission).
- Mr. Bruce Boudreau, Principal with Leigh Fisher Associates, Inc. Leigh Fisher Associates is a national and international airport-consulting firm headquartered in San Mateo with expertise in airport concession program. Mr. Boudreau previously assisted with the planning of retail and food and beverage concessions for the new International Terminal.

The Advisory Committee considered the following options to determine which would meet the above stated goals:

- Lease extension – extend the master lease with Host.
- Master concessionaire – conduct a selection process for a new master food and beverage concessionaire.
- Developer – select a third-party developer that would lease all of the spaces and sublet spaces to individual operators. The developer would not operate any food and beverage concessions itself.
- Individual direct leasing – multiple leases directly with various food and beverage operators.
- Multi-direct leasing – award a few large leases covering multiple locations.

Mr. Harvey Rose
October 24, 2003
Page 3

- Leasing manager – select a leasing manager to conduct outreach and select tenants on behalf of the Airport.

The Advisory Committee believed strongly that there should be no lease extension with Host International and no holdover of any existing facilities. The Advisory Committee felt that the poor existing conditions, outdated facilities, limited offerings, and high prices would outweigh any benefits from the redeveloped food and beverage program.

After careful consideration and deliberation, the Advisory Committee unanimously recommended that the developer model would best meet the Airport's overall goals and objectives and allow the airport to execute a quality program within the accelerated schedule, without a lease term extension or hold over of Host. The Advisory Committee also collectively concurred that the best approach to select a qualified developer was pursuant to a Request for Qualifications approach, followed by negotiations with the selected operator. This would allow the Airport to bring on a qualified developer quickly and ensure that the successful qualifier could begin immediately to implement the new food and beverage program.

On May 21, 2002, pursuant to Resolution No. 02-0109, the Airport Commission authorized staff to commence the competitive process through a Request for Qualifications to select a qualified developer for the Domestic Terminals Food and Beverage Program Lease. On June 4, 2002, pursuant to Resolution No. 02-0124, the Airport Commission approved the minimum qualification general business terms for the developer agreement.

On July 3, 2002, staff received two submittal packages: one from MarketPlace Development Limited Partnership ("MarketPlace") and one from Westfield Concession Management, Inc. ("Westfield"). Staff reviewed the submittals and found that both met the qualification requirements.

Pursuant to Resolution No. 02-0167, adopted July 23, 2002, the Airport Commission short-listed MarketPlace and Westfield as qualified for this developer lease, and authorized staff to advance to the interview phase. Staff convened a six-member panel to evaluate the submittals based on the specific selection criteria. On July 26, 2002, this six-member panel conducted interviews with MarketPlace and Westfield. Following the review of the submittals and the oral phase of the selection process, MarkPlace was recommended. MarketPlace's experience in implementing the successful program in the International Terminal Building was a consideration in their selection.

On August 6, 2002, pursuant to Resolution No. 02-0180, the Airport Commission authorized staff to negotiate the business terms of a master lease with MarketPlace Development Limited Partnership, the highest ranked qualified developer and to pursue negotiations with Westfield if these negotiations were unsuccessful.

Mr. Harvey Rose
October 24, 2003
Page 4

During the course of extensive negotiations with MarketPlace, it became apparent to staff that the cost of MarketPlace's services would reduce revenue to the Airport to an unacceptable level and that the Airport could redevelop the food and beverage facilities on a more cost-effective and timely manner by moving forward under the direct leasing model, rather than a developer model. In a direct leasing model, the Airport (rather than the master tenant/developer) would oversee the outreach and selection of the tenant operators, enter into direct leases with such operators, and thereafter manage such operators. This model would also yield stronger outreach to the DBE operators, greater Airport control, more participation by qualified local operators, and higher financial returns to the Airport.

On November 5, 2002, at the request of Airport staff and pursuant to Resolution No. 02-0226, the Airport Commission rejected the MarketPlace and Westfield qualification submittals and approved the use of a direct leasing model. Also on November 5, 2002, pursuant to Resolution No. 02-0227 and at the recommendation of the Advisory Committee the Airport Commission approved the use of Leigh Fisher Associates as the "Outreach Manager" for the direct leasing program. In connection with this, the existing professional services Contract No. 5000 between Leigh Fisher Associates and the Airport was modified to extend the term of the contract, include the three-year assignment of services under this program, and increase the contract amount by a not-to-exceed $1,334,000 to compensate the firm for their services at "Outreach Manager".

Very truly yours,

David W. Pfeiffer
Associate ~~Deputy~~ Director
Revenue Development

LOG OF DBE *RECERTIFICATIONS*
FOR AIRPORT F&B CONCESSIONS

COMPANY NAME	DATE OF DBE CERTIFICATION	DBE RENEWAL DATE
ANDALE SFO Luis Sanchez	09/25/03	09/25/06
FUNG LUM Nigel Pang	9/25/03	9/25/06
LORI'S DINER INTERNATIONAL Man J. Kim	09/15/03	09/16/06
D. LEW ENTERPRISES Carmen Mayo	09/15/03	09/16/06
BAYPORT CONCESSIONS, LLC Miguel Romero	09/15/03	09/16/06
J. AVERY ENTERPRISES (WBE) Avery McGinn	09/15/03	09/16/06
TOMOKAZU JAPANESE CUISINE (SFO), INC. Ring Wong and Francis So	09/08/03	09/12/06
LADY LUCK GOURMET, LLC Marina L. Go	09/08/03	09/12/06
SUSIE LEE TONG ENTERPRISES GOLDEN GATE BAR / SNACK BAR Susanna Tong	07/07/03	08/01/06
H. YOUNG ENTERPRISES Howard N. Young	04/10/03	05/01/06
WSE GROUP Jose Placencia	03/12/03	03/12/06

LOG OF DBE *NEW* CERTIFICATIONS
FOR AIRPORT CONCESSIONS

COMPANY NAME	DATE OF DBE CERTIFICATION	DBE RENEWAL DATE
1. SANRAKU JAPANESE RESTAURANT Kimiko Hattori	10/20/03	10/20/06

LOG OF DBE *NEW* Pending CERTIFICATIONS FOR AIRPORT CONCESSIONS

COMPANY NAME	DATE OF DBE CERTIFICATION	
SUBWAY (WBE) Geri & Dan Celestina		
PEET'S COFFEE (WBE) Dayna & Glenn Meyers		
SAN FRANCISCO SOUP COMPANY (WBE) Jennifer & Steve Sarver		
LUNA AZUL Jonathan Leong		
EMPORIO RULLI (WBE) Jeanne & Gary Rulli		

CONCESSIONAIRES WITH *EXPIRED* CERTIFICATIONS

(Existing Tenant pending re-certification)

COMPANY NAME	EXPIRATION DATE
1. FIREWOOD CAFÉ (WBE) Dayna & Glenn Meyers	08/18/00

CONCESSIONAIRES *CERTIFIED BY OTHER AGENCIES*

COMPANY NAME	AGENCY
1. GUAVA & JAVA Rita Bhasker	Washington-Dulles Airport

Attachment VII

SFIA Food and Beverage Program
Domestic Terminals

			Fiscal Year				
	2005	2006	2007	2008	2009	2010-2016	Cumulative Revenue
Revenue Master Lease Program	4,563,980	4,723,875	4,889,271	5,060,535	5,237 666	42,170,878	66,646,205
Expenses Master Lease Program	0	0	0	0	0	0	0
Net Revenue Master Lease Program	4,563,980	4,723,875	4,889,271	5,060,535	5,237,666	42,170,878	66,646,205
Revenue Direct Lease Program	3,637,000	5,204,000	5,564,000	5,946,000	6,353,000	57,934,000	84,638,000
Infrastructure/FC Recovery Fees	426,000	968,000	968,000	968,000	968,000	4,840,000	9,138,000
Gross Revenue	4,063,000	6,172,000	6,532,000	6,914,000	7,321,000	62,774,000	93,776,000
Debt Service-Capotal Improvements	-486,000	-972,000	-972,000	-972,000	-972,000	-6,804,000	-11,178,000
Cost of Outreach (1)	-445,000	0	0	0	0	0	-445,000
Net Revenue Direct Lease Program	3,132,000	5,200,000	5,560,000	5,942,000	6,349,000	55,970,000	82,153,000
Gain/Loss in Revenue Vs Master Lease:	-1,431,980	476,125	670,729	881,465	1,111,334	13,799,122	15,506,795

San Francisco International Airport

October 27, 2003

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Mr. Harvey Rose
Office of the Budget Analyst
1390 Market Street, Suite 1025
San Francisco, CA 94102

Subject: Airport's Domestic Terminals Food and Beverage Redevelopment Program – Tenant Selection Process

Dear Mr. Rose:

The tenant selection process was a competitive proposal process pursuant to Section 2A.173 of the San Francisco Administration Code. The competition was based on the evaluation of proposals according to evaluation criteria established by the Airport Commission in Resolution No. 030034.

The tenant selection was comprised of five separate phases:

I. Outreach
II. Request for Qualification
III. Request for Proposal
IV. Development of the Recommended Slate of Tenants
V. Recommendation, Selection, and Approval

I. Outreach

Pursuant to the Resolution No.03-0034, the Airport Commission authorized an extensive outreach process to encourage a high degree of local business and DBE participation. The outreach process, and the evaluation and selection process, was substantially the same as the process used to select tenants for the highly-regarded International Terminal food and beverage program in 1999. During the outreach phase, the Outreach Manager (Leigh Fisher Associates) conducted an extensive outreach to the San Francisco Bay Area community to provide information on the business opportunities presented by the domestic terminals food/beverage redevelopment program.

Mailings were sent to over 1,800 interested parties who had expressed interest in the earlier International Terminal selection process or who were on the Airport's list of interested parties. This outreach included two informational meetings at the Fairmont Hotel in San Francisco on February 24, 2003 and at the Crown Plaza Hotel in Burlingame on February 25, 2003. Some 200 persons attended the meetings. The

presentations were targeted to restaurant and bar operators who may have not through about an airport location so that they could make an informed opinion on whether to submit the Round I Qualifications Submittal.

Pursuant to the Airport Commission's resolution, the outreach effort was focused on "Target Companies", which was defined as "food and beverage companies, which currently offer established, widely recognized popular and proven national, regional, and local brand names".

To reach out to the local minority communities, an evening meeting was held on March 27, 2003 at the Airport Aviation Museum with the San Francisco Bay Area ethnic chambers of commerce for 85 participants for additional Disadvantaged Business Enterprise (DBE) outreach. The following chambers were invited:

- Chinese Chamber of Commerce,
- Japanese Chamber of Commerce
- San Francisco Black Chamber of Commerce
- San Francisco Hispanic Chamber of Commerce
- Asian Business Association
- San Mateo County Hispanic Chamber of Commerce
- South San Francisco Hispanic Chamber of Commerce

In addition, ads were placed with sixteen outreach publications of which 11 are minority publications such as: Asian Week, Sun Reporter, Nichi Bei, and Tiempo Latino. Press releases were sent to over 70 local/Bay Area media contacts, and many organizations and associations (including minority and women affiliations) were notified of the business opportunities and meetings. These contacts included the ethnic chambers of commerce and the merchant and restaurant associations.

II. Request for Qualifications

On March 25, 2003, pursuant to Resolution No. 03-0034, the Commission approved the minimum qualification requirements, criteria and methodology for selecting tenants for the Program. Each operator was asked to submit a short statement of their qualifications that was reviewed by the Outreach Manager to determine whether the operator satisfied the "Minimum Qualification Requirements" as approved in the above Resolution. These "Minimum Qualification Requirements" are noted below:

- *Experience:* Each operator must have a minimum of three years of experience within the last five years in the ownership or management of a food and beverage business.

Mr. Harvey Rose
October 27, 2003
Page 3

- *Revenue Requirement:* Each business must have achieved total annual gross revenues for the applicable category:

Category	Revenue Requirement
Casual Dining/Bar	$750,000
Quick Serve	$500,000
Fast Food	$1,000,000
Specialty Coffee	$500,000
Café	$500,000

A total of 115 companies and individuals responded to the Request for Qualifications. Of this number, it was determined that 101 met the minimum qualifications criteria established by the Airport Commission, and 14 did not. The 101 operators who met the minimum qualifications criteria were invited to participate in the Round II Request for Proposal process and were given the Round II Request for Proposals package.

III. Request for Proposals Phase

The Request for Proposals Package requested each Round II participant to provide background information on its experience and ownership; DBE status/participation; a description of the proposed concept; evidence of financial capability; proposed menus with prices; design information and approach; customer service program; and a five-year business plan.
A total of 86 proposals were received from 39 proposers. A large number of proposals, 17 in all, were submitted by the current master concessionaire, Host International of Bethesda, Maryland, either in its own name or as the leader of a joint venture. Another national operator, Creative Host Services, (no relation to Host International) based in San Diego, submitted 11 proposals in all.

IV. Development of Recommended Slate of Tenants

A "Blue Ribbon" Panel comprising community members with diverse and related expertise was established by the Airport to assist in selecting a "slate" of tenants which would best satisfy the Airport's goals, which included goals for DBE participation (50%) and local participation (80%). In developing the slate, the Food and Beverage Development Team worked with the Blue Ribbon Panel to achieve a mix of recommended tenants that best met the criteria established by the Airport Commission. The evaluation criteria established by the Airport Commission included:

- Experience in restaurant management and ownership
- Strength in management of current operations
- Quality of food
- General reputation of current operations
- Design and maintenance of current operations

- Identification of operation with the San Francisco Bay Area
- DBE status/participation
- Appropriateness of concept, menu, pricing
- Customer service
- Design sensitivity of proposers
- Financial strength (ability to finance improvements and working capital)

Members of the Food and Beverage Development Team, which including consultants and Airport staff, performed due diligence on the operators, including unannounced site visits; kitchen inspections; review of health department records; review of the financial information provided by each proposer to determine capacity to construct the improvements and provide reasonable working capital, reviewed references.
The food and beverage team, including airport staff and consultants, prepared a merchandise plan showing the location of each unit and the category of each unit. This plan was included in the RFP and showed the location and category of spaces in each Lease Package. The Merchandise Plan was also reviewed with the Blue Ribbon Panel, and served as a template for assembling the recommended tenant slate.

Proposers were permitted to propose a specific concept within the category. For example, a proposer could propose a Chinese Quick-Serve concept for a lease package with one (or more) quick-serve location. The proposer could not propose a café or specialty coffee concept for a lease package designated as Quick-Serve.
The RFP provided that a proposer could be offered a location other than the location originally proposed on in order to achieve appropriate balance in the program. For example, there were a large number of proposals received for some of the locations considered to prime, and little or no interest expressed in other locations considered to be less attractive. Based on the Blue Ribbon Panel's instructions, Food and Beverage Development Team members reviewed alternative locations with proposers to determine if they were interested in the alternative locations. These proposers were then instructed to review their business plans and determine if they would be interested in being recommended for that location. Some proposers were willing to accept alternative Lease Packages; others were not. The process was conducted to assemble a slate that would, in the opinion of the Blue Ribbon Panel, best meet the overall program goals consistent with the selection criteria established by the Airport Commission.
All proposers were assumed to have the authority to operate the brands they proposed. It was made clear to all proposers that no lease would be executed with a concept or brand different from the one on which the award was made. Therefore, no proposers would have a reason to propose a brand it could not deliver.

The Blue Ribbon panel felt very strongly that a local coffee concept would better reflect San Francisco and the Bay Area than the Starbucks brand. The Panel was fully informed of the current sales performance demonstrated by the Starbucks brand at SFO. In this case, however, the Blue Ribbon Panel exercised its prerogative to select the

tenants they felt best fit the overall selection criteria established by the Airport Commission. This resulted in the selection of a proposal for a local brand. The Blue Ribbon Panel then recommended one tenants for each of the 28 lease packages.

V. Recommendation, Selection, and Approval

Under the Airport Commission's resolution establishing the program, the role of the Food and Beverage Development Team, the Blue Ribbon Panel, the Airport Director, and the Airport Commission were clearly spelled out. The Food and Beverage Development Team (including the Outreach Manager) conducted due diligence on the proposals and supported the Blue Ribbon Panel. The Blue Ribbon Panel was charged with *recommending* a slate of tenants to the Airport Director and the Airport Commission, which could then *select* the tenants individually or collectively. Now that the Airport Commission has selected the tenant slate, it has now been submitted to the Board of Supervisors for *approval.*

There was no opposition to the recommended slate at the Airport Commission meeting and no protests by any unsuccessful proposers. At the meeting, the Hotel Employees and Restaurant Employees Union (H.E.R.E.) Local 340 endorsed the recommended slate.

Very truly yours,

David W. Pfeiffer
Associate Deputy Director
Revenue Development

cc: John L. Martin
Leo Fermin

NOV.10'2003 16:43 650 821 4517

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November 10, 2003

Mr. Harvey Rose
Office of the Budget Analyst
1390 Market Street, Suite 1025
San Francisco, CA 94102

Subject: Budget Analyst's Report on the Airport's Domestic Terminals Food and Beverage Redevelopment Program - Page 15

Dear Mr. Rose:

Because the tiered rent structure and minimum annual guaranteed rent were established in the Request for Proposal (RFP), the revenue to the Airport became a function of selecting the tenants that will produce the highest overall sales for each location. Sales drive revenues; revenues do not drive sales.

The experience of the International Terminal food and beverage program demonstrated clearly that quality, selection and fair pricing are the keys to maximizing sales.

The Blue Ribbon Panel was highly focused on selecting the best proposer for each location, based on the perceived ability of the proposer to produce high sales based on its track record, proposed concept, menu, experience, reputation, business plan, and other information requested in the RFP.

Sincerely,

David W. Pfeiffer
Associate Deputy Director
Revenue Development

cc: John L. Martin
Leo Fermin

San Francisco International Airport

November 24, 2003

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Mr. Harvey Rose
Office of the Budget Analyst
1390 Market Street, Suite 1025
San Francisco, CA 94102

Subject: SFO's New Domestic Terminals Food and Beverage Redevelopment Program

Dear Mr. Rose:

As a follow-up the Board of Supervisor's Finance Committee meeting on Wednesday, November 19, 2003 we are attaching supplemental information regarding to the issues raised in your report and discussed at the Committee meeting. The information is presented below and supplemented by attachments to this letter.

The Domestic Terminal Food and Beverage Program tenant slate was unanimously selected by the Airport Commission.

I. Comparison of Effective Rents

The Budget Analyst's report compared the effective percentage rent for the recommended Domestic Terminals program with those of Portland, Denver, and Dallas/Fort Worth airports, which also use a direct leasing program.

The Budget Analyst's report correctly noted that the Airport will recover its investment in infrastructure costs through square-foot surcharges on each tenant. A total of $968,000 will be collected annually under the recommended leases.

None of the other airports included in the comparison use cost recovery charges for airport infrastructure. It is the standard practice for airports to recover the costs of essential infrastructure through its percentage rents. The cost of providing additional concession space, running utilities, constructing storage space, or other terminal investments necessary to support the overall concession program is provided as a component of essential infrastructure. Concessions contribute revenue based on percentage rents to offset these costs.

We confirmed with each of the comparison airports that they do not assess charges for airport infrastructure. Regardless, it is appropriate that the costs recovery for the Domestic Terminals program be included as additional revenue and included in any comparison of percentage rents.

Tenant Infrastructure Costs as a Percent of Sales

Annual tenant infrastructure cost	$ 968,000
Projected annual sales (FY 2006)	$ 54,147,000
Infrastructure cost as a percent of sales	1.8 %
Effective rent	9.3 %
Total effective rent including infrastructure cost recovery	11.1 %

The 11.1 % effective rent is a true "apples to apples" comparison with the other airports and reflects the actual amounts that each airport will collect from its food and beverage tenants.

II. Additional Tenant Costs Unique to SFO

Attachment 2 presents a summary of the significant cost differentials faced by SFO food and beverage tenants compared with the comparison airports at Dallas/Fort Worth, Denver, and Portland. Food and Beverage Team staff verified with each airport whether or not their tenants had to bear the burden of additional costs required by City policy.

Collectively, the requirements above result in a higher relative cost structure at SFO compared to Dallas/Fort Worth, Denver, and Portland. Again, we reviewed these costs with management at the respective airports to determine that they do not impose these or other unique costs on their food and beverage tenants.

III. SFO Lease Requirements Compared to Other Airports

Food and Beverage Team members asked the proposed tenants to identify the cost differential – expressed as a percentage of total sales - that the unique operating requirements of SFO would have compared to other airports. The International Terminal rental rates were based on the higher costs of operation at SFO. For the Domestic Terminals, our consultant, Leigh Fisher Associates, estimated the cost differential to be in the range of the equivalent of 3% of sales.

A survey of the selected tenants found that their estimate of additional costs from City-imposed requirements was on average the equivalent of 5.9% of sales. The actual costs will vary with each tenant, their concept and category of food and beverage operation. Food and beverage team members also reviewed a detailed analysis for a casual dining/bar operation prepared by an International Terminal tenant who is also a recommended tenant in the Domestic Terminals. This tenant also operates a casual dining/bar operations at a large East Coast airport. This tenant's analysis showed a cost differential in the range of 6% to 7%. The tenant would be pleased to review in person his calculations with the Budget Analyst's office.

V. Summary

Taking into account the infrastructure cost recovery charges not charged by other airports, and the unique, higher costs at SFO, Domestic Terminal food and beverage tenants will have the following occupancy costs:

Total Occupancy Costs
Domestic Terminals Food and Beverage Program

Effective rent	9.3 %
Infrastructure costs as percent of sales	1.8 %
SFO Cost Differential	3.0 % (1)
Total occupancy costs	**14.1%**

(1) Estimate by Leigh Fisher Associates. Experienced tenants have indicated the range to be from 3% to 6% of sales.

A comparison of the total occupancy costs for the recommended Domestic Terminals program and the comparison airports produces the following results.

SFO Occupancy Costs Comparison
Domestic Terminals Food and Beverage Program

SFO Domestic Terminals Program	14.1 %
Portland	13.5 %
Denver	13.0 %
Dallas/Fort Worth	11.5 %

In summary, SFO Domestic Terminals tenants will have higher occupancy costs, including percentage rents, than the comparison airports, when viewed on a comparable basis. These costs are considerably higher than the direct leasing program at Dallas/Fort Worth International Airport, and above the comparable costs for the other airports.

VI. Rent Revenue from Storage and Support Space

As noted in the Budget Analyst's report, the Airport will derive additional revenue from leasing support and storage space to each food and beverage tenant. Space will be rented at the Airport's established rate of $32.28 per square foot per year for Category IV space.

In the International Terminal, food and beverage tenants currently lease 16,451 sq ft of food and beverage retail space, and lease an additional 3,500 sq ft of support and storage space. Leased storage and support space is 21% of the retail food and beverage space.

The prospective tenants for the Domestic Terminals program have indicated on a preliminary basis that they will need 10,000 sq ft of storage and support space, or, about 20% of the 48,438 sq ft of food and beverage retail space. This will yield an additional $322,800 at the current Category IV rate, subject to the annual adjustment.

VII. Rent Revenue from Office Space

The Airport will recover 4,360 sq ft of Category II office space currently under the Master Lease. The Airport expects to re-let this space to food and beverage tenants, other existing concessionaires and service providers, or airlines at the current rental rate of $128.82 per sq ft.

This will result in additional revenue of $ 561,800. Under the current Master Lease, no separate space rent is collectable from the tenant.

VIII. Summary of Additional Lease Revenue

As noted above, the current Master Lease provides that Category IV storage and support space and Category II office space is provided without additional rental charges. As noted by Supervisor Sandoval, in order to compare revenue from the recommended program with the current Master Lease, it is appropriate to include the Airport's additional rental revenue from space recovered upon expiration of the current Master Lease.

The table below presents a summary of total revenues for the recommended program and the current food and beverage Master Lease.

Annual Total Revenue Comparison
Recommended and Current Food and Beverage Programs

	Current Master Lease 2004	Recommended Program 2006
Annual percentage rental	$ 4,409,586 [1]	$ 5,205,000
Storage and support space revenue	- -	322,800
Office space revenue	- -	561,800
Total revenue	**$ 4,409,586**	**$ 6,089,600**
Percentage increase		**+ 38.1%**

(1) Budget Analyst's projection

Total food and beverage program revenue for the first stabilized year of the recommended program of $6,089,600 is an increase of nearly 38.1% over the current revenue projection of $4,409,000 under the current Master Lease.

* * * * *

No other Airport concession serves more passengers or has a higher impact on passenger perceptions of the Airport than food and beverage service. Nearly half of all passengers use food and beverage facilities. Over the past 15 years, airports as an industry recognized that the traditional master lease approach does not result in a high level of service, competition among operators, street pricing, and quality food and beverage offerings. It also minimizes potential opportunities for local operators.

The airlines recognize the benefits of this approach and endorsed the recommended food and beverage program, noting that the recommended program "strikes the correct balance between revenue maximization and local business participation" and that the food and beverage concessions should be "redeveloped immediately". The airlines' recommendation comes from individuals with considerable knowledge of airport industry best practices.

Please let us know if you have any questions. Again, Food and Beverage Team staff and consultants would be pleased to meet with representatives of the Budget Analyst's office to discuss any aspect of our program.

Respectfully submitted,

David W. Pfeiffer
Associate Deputy Airport Director
Revenue Development

Attachments

cc: Peter Nardoza
Cathy Widener

Item 16 - File 03-1928

Notes:	This item was formerly under File Number 03-1696. This item was continued by the Finance Committee at its meeting of November 5, 2003.
Department:	Public Utilities Commission (PUC) Water Department (WTR)
Item:	Resolution authorizing a new 25-year lease of City-owned land in Alameda County under the jurisdiction of the Public Utilities Commission, between the City and County of San Francisco through its Public Utilities Commission and the Sunol Valley Golf and Recreation Company for purposes of continuing to operate the Sunol Valley Golf Course which includes two golf courses and privately-owned related facilities.
Lessor:	City and County of San Francisco acting by and through the Public Utilities Commission (PUC)
Lessee:	Sunol Valley Golf and Recreation Company (Sunol Valley) (owners include Ronald F. Ivaldi, Marjorie L. Russell, Lisa M. Granzella, Bryan E. Richardson, and the Ivaldi Family Trusts)
Location and Acreage:	Portion of Parcels 61 and 65 in Alameda County at 6900 Mission Road in Sunol, California, consisting of approximately 280 acres of land and related facilities, including two eighteen hole golf courses, a two story building housing, a pro shop and administrative offices, and a clubhouse. All of the facilities are owned by Sunol Valley, the lessee.
Term of Proposed Lease:	The proposed new lease would be effective on approval of the Board of Supervisors and the Mayor and expire October 31, 2028 or a period of 25 years. Since August 31, 2001 the proposed lessee has been operating the Sunol Valley Golf Course under a month-to-month holdover basis as provided for in the original lease which was previously awarded to Sunol Valley by the PUC.
Provisions Included in Original Lease:	The original lease in 1965 to operate the Sunol Valley Golf Course was awarded by the PUC to the Sunol Valley Golf Course and Recreation Company under a competitive bid process. That lease began September 1, 1965 and terminated on August 31, 2001. Since the termination of

that agreement on August 31, 2001, the PUC has authorized the same lessee, Sunol Valley, to operate the Sunol Valley Golf Course under a month-to-month holdover provision contained in the original lease. Under the original lease and under the month-to-month holdover provision, the rent payable by Sunol Valley to the PUC continues to be the greater of either the Minimum Rent or the Percentage Rent as follows:

<u>Minimum Annual Rent</u>
$12,000 (at $1,000 per month)

<u>Percentage Rent</u>:
For each month, percentage rent shall equal the sum of a) 10 percent of Admissions gross revenues, <u>plus</u>, b) 5 percent of Equipment Rentals gross revenues, <u>plus</u>, c) 8.25 percent of Concessions gross revenues, calculated and payable on a monthly basis.

Rent Paid by Sunol Valley to the PUC Under Original Lease:

According to Mr. Gary Dowd of the PUC, Sunol Valley has paid Percentage Rent, because the percentage rent has been greater than the Minimum Rent, since at least 1993 (historical data prior to 1993 is not available). As shown in Attachment V, which includes a 10-year history of actual rent payments made by Sunol Valley to the PUC, Sunol Valley, has paid the PUC an average of $41,705 per month as percentage rent.

Rent to be paid by Sunol Valley to the PUC Under the Proposed New Lease:

Under the proposed new lease, Sunol Valley is required to pay the PUC the greater of either the Minimum Rent or Percentage Rent in accordance with the following:

<u>Minimum Annual Rent</u>
<u>For the first five Lease Years:</u>
$250,000 ($20,833 per month)

<u>For the sixth through tenth Lease Year:</u>
$500,000 ($41,667 per month)

For the eleventh and each Lease Year thereafter:
The Minimum Rent of $500,000 noted above is to be adjusted annually by the percentage change in the Consumer Price Index (CPI) for the San Francisco, Oakland, San Jose metropolitan area for Lease Years 11 through 25 ($41,667 per month adjusted by the CPI).

Percentage Rent
For the first five lease years, percentage rent shall equal the sum of a) 5 percent of Admissions gross revenues, plus, b) 2.5 percent of Equipment Rentals gross revenues, plus, c) 4.125 percent of Concessions gross revenues, calculated and payable on a monthly basis. For the sixth through twenty-fifth lease years, percentage rent shall equal the sum of a) 10 percent of Admissions gross revenues, plus, b) 5 percent of Equipment Rentals gross revenues, plus, c) 8.25 percent of Concessions gross revenues, calculated and payable on a monthly basis. Therefore, the percentage rent under the proposed lease would be reduced by 50 percent from the percentage rent required under the existing lease for Lease Years 1 through 5, and then for years 6 through 25 of the proposed lease, the Percentage Rent would return to the same rates as are being paid under the existing lease.

Therefore, the percentage rates contained in the proposed lease are less for the first five years and are the same percentage rates for the last 20 years as are contained in the existing lease which was awarded approximately 38 years ago in 1965. According to Mr. Dowd, the proposed lease does not provide for any rate increases in the percentage of gross revenues from the existing lease because considering the $2,096,998 in required capital improvements and an additional $10,836,202 (see below) in capital improvements needed, there wasn't room for a rent increase. However, the Budget Analyst noted that the proposed lease did not contain specific provisions to require the lessee, Sunol Valley, to expend an additional $10,836,202 for capital improvements. Subsequent to the submission of Budget Analyst's draft report to the PUC, Mr. Dowd has since added language to the proposed lease to designate not less than $10.8 million in capital improvements to be expended by Sunol Valley over the 25 year lease, in addition to the $2,096,998 noted above. However, such language has not been approved by the

PUC and the proposed resolution does not yet reflect the language added by Mr. Dowd. According to Mr. Dowd, the percentage rent is being reduced for the first five years to offset a majority of the $2,096,998 in required capital improvements at the Sunol Valley Golf Course to be made by Sunol Valley. In fact, the Budget Analyst has calculated that this proposed reduction in percentage rent would result in the PUC paying for 67.2 percent of such capital improvements (see Comment No. 5).

Utilities and Janitorial Service: Provided by the Lessee.

Additional Lessee Financial Obligations: The proposed lease requires the lessee to pay for the following Capital Improvements to the Sunol Valley Golf Course to be completed within two years after the lease Commencement Date of November 1, 2003, in an amount of not less than $2,096,098 as follows:

Required Work	Estimated Costs
Irrigation Supply New Pipe Line	$138,600
Pond 3 Improvements	735,561
Pond 4, 5 Improvements	511,100
Maintenance Building Relocation	574,550
Contingency	137,187
Total Estimated Costs:	$2,096,998

According to Mr. Dowd, the scope of the capital improvements and the total estimated capital improvement costs of $2,096,998 for such improvements were determined by a consultant, Tanner Consulting, a firm retained by Sunol Valley at the lessee's expense. An itemized budget and description of the required work is shown in Attachment I, provided by the PUC. The Budget Analyst questioned why the PUC did not determine the capital improvement needs and their related costs using a consultant selected by the PUC instead of permitting the lessee, Sunol Valley to have their own consultant make such determinations. In response, Mr. Dowd stated:

> "The lessee worked very closely with PUC staff and the City Attorney's Office to direct Tanner Consulting as to the appropriate Project Scope of Work. Under the proposed lease agreement the

> lessee is responsible for completing all required work, regardless of cost. Any portion of the $2,096,998 not spent on required work must be deposited into the Capital Improvement Fund so the City will in fact receive the full $2,096,998 benefit regardless of actual costs."

According to the proposed lease, these capital improvements must be completed by November 1, 2005. Additionally, Sunol Valley must establish and maintain a separate, interest-bearing Capital Improvement Fund Account. Sunol Valley must deposit by the twentieth day of each month an amount equal to two percent of the Gross Revenues from the preceding month in Lease Years 1 through 25. Mr. Dowd advises that this 2 percent contribution is taken from total gross revenues and the Fund proceeds are required to be expended for Capital Improvement projects, in addition to the $2,096,998 described above, over the course of the Lease term with the PUC General Manager's approval. As shown in Attachment II provided by Mr. Dowd, these additional capital improvements are estimated to cost $10,836,202.

Interest earned on the Fund balance shall become part of the Capital Improvement Fund and shall be used exclusively for construction, repair, and replacement of capital items.

All maintenance of the golf course and facilities will be the responsibility of lessee. The proposed lease contains detailed maintenance standards that must be met by the lessee.

During the term of the proposed lease, the lessee must maintain a security deposit equal to $250,000, an increase of $200,000 from the current security deposit of $50,000 under the existing month to month lease.

Description: On March 8, 1965, the PUC advertised for bids to construct and operate the Sunol Valley Golf Course on 280 acres of PUC-owned land located south of Sunol Water Temple in Sunol, California, in Alameda County. On June 20, 1965 the PUC awarded a 22-year Lease beginning September 1, 1965 between the PUC and Sunol

Valley Golf and Recreation Company, the same lessee as is being proposed for the new subject lease. On March 19, 1968, the PUC approved the First Amendment to the Lease which extended the completion date for operating the Sunol Valley Golf Course for an additional 18 months. According to Mr. Dowd, two golf courses were constructed and paid for by Sunol Valley Golf and Recreation Company. On April 1, 1969, the PUC approved the Second Amendment to the Lease which provided for a 14-year extension to the 22-year lease with Sunol Valley, creating a 36-year lease commencing September 1, 1965 and ending August 31, 2001 with an option for an additional 6 years, terminating August 31, 2007. On May 23, 1989 the PUC approved the Third Amendment to the Lease giving Sunol Valley the option to provide the City with a cash security deposit or a letter of credit in lieu of a performance bond and also provided for payment to the City of 5 percent of gross revenues for rental of all golf carts as additional percentage rent.

Since August 31, 2001, Sunol Valley Golf Course has been operated by Sunol Valley on a month-to-month basis with the PUC. As noted above, upon termination of the lease in 2001, Sunol Valley had the option to extend for an additional six years. Regarding the option for an additional six years, Section 3 of the Second Amendment to the original lease states the following:

> "The parties hereto mutually covenant and agree to then negotiate as to the terms, conditions and rental for said extension, and if such negotiation results in mutual understanding and agreement, Commission, by resolution, shall grant such extension of term, subject to the covenants and conditions arrived at through such negotiations, which covenants and conditions shall be reasonable and fair."

In Attachment III, a memo provided by the PUC, Mr. Dowd explains why the six-year option was not approved by the PUC. Mr. Dowd states the PUC:

> "did not approve the six-year extension option because at the time the tenant sent notice to

> exercise the option there were too many unknowns regarding continued water supply, costs associated with corrective action for the petroleum pipeline, and essential capital improvements needed at the course."

Attachment III further explains why this proposed lease has been recommended by the PUC on a sole source basis without the use of competitive bidding processes and why the lessee has been permitted to operate on a month-to-month holdover basis since August 31, 2001 after the remaining six-year option under the existing lease was not approved by the PUC. Among other reasons, Mr. Dowd states that "the bid process could have taken anywhere from one and a half to two years to complete and award, as was the PUC's experience with Crystal Springs Golf Course in 1997." Further, Mr. Dowd stated that the PUC had concerns over potential environmental damage and the PUC's potential liability related to the unknowns regarding continued water supply and costs associated with corrective action for the petroleum pipeline. Attachment III details the potential environmental issues that currently face Sunol Valley, including water supply problems and an eroding petroleum pipeline, which according to the PUC, are critical, and could not wait any longer to be addressed. The memo from Mr. Dowd also explains why this proposed subject new 25-year lease has been recommended for award by the PUC to Sunol Valley on a sole source basis without the use of competitive bidding procedures. The memo concludes by stating:

> "The critical work at the course could not and cannot wait any longer. The SFPUC has been very pleased with Sunol Golf Course's willingness to perform the "Required Work" and they have been very cooperative and acted in good faith throughout the negotiation process. The SFPUC is also in full support of the recommendations outlined in the Dornbusch Analysis. Upon approval of the new Lease all of the above referenced critical projects will immediately commence."

The PUC has proposed a new 25-year lease without competitive bidding with the following rent structure and conditions:

- The Minimum Rent would be increased, from the current level of $1,000 monthly or $12,000 annually to $20,833 monthly or $250,000 annually in Lease Years 1-5; increased to $41,667 monthly or $500,000 annually in Lease Years 6-10; and adjusted annually by the amount of the percentage change in the CPI for Lease Years 11-20. According to Mr. Dowd, the Minimum Rent was set at a low level in the original lease because rents paid were always assumed to be based on the percentage of gross revenues. Mr. Dowd adds that at the time of the original lease, the golf industry in the Sunol Valley area was not strong, and the number of rounds being played at the course were far less than they are today. Mr. Dowd advises that as residential communities continued to develop around the Sunol Valley area, demand for golf also grew and the Percentage Rent became the most important factor for calculating rent. However, since 1965, or over 38 years ago, when the original lease with Sunol Valley was first awarded by the PUC, the rental rates, as determined by the percentage of gross revenues, have never been increased and the PUC has only realized increased rent as a result of increases in Sunol Valley's gross revenues. In fact, as previously noted, the proposed lease provides for a 50 percent reduction in the percentage of gross receipt rates for the first five years of the new 25-year lease. Mr. Dowd explains that "considering the $2,096,998 in required work and the additional $10,836,202 in capital improvements needed, there wasn't room for a rent increase". However, Mr. Dowd's statement does not directly address why there has never been an increase in the rates, as determined by a percentage of gross revenues, for over 38 years. Although the annual Minimum Rent is being increased under this proposed lease, Mr. Dowd acknowledges that the rent has always been paid under the percentage of gross method and not under the Minimum Rent method.

- Percentage rent would be reduced by 50 percent from the payments required under the existing lease in Years 1 to 5, from 10 percent in Admissions gross revenues plus 5 percent of Equipment Rentals gross revenues plus 8.25 percent of Concessions gross revenues to 5 percent in admissions gross revenues plus 2.5 percent of Equipment Rentals gross revenues plus 4.125 percent of Concessions gross revenues. In Lease Years 6 through 25, Percentage Rent would return to the same levels now being paid under the existing lease of 10 percent in Admissions gross revenues plus 5 percent of Equipment Rentals gross revenues plus 8.25 percent of Concessions gross revenues. Attachment IX, provided by Mr. Dowd, explains how the Minimum Rent and the Percentage Rent levels under the proposed lease were determined.

- The security deposit required to be maintained by Sunol Valley would be increased from $50,000 to $250,000.

- Sunol Valley would be responsible to pay for certain capital improvements required in the first two years of the Lease (as summarized above and in Attachment I) in an amount of not less than $2,096,998.

- Sunol Valley would be required to pay the PUC an amount equal to $2,500 for processing fees. According to Mr. Dowd, this is the standard amount the PUC charges all lessees for new leases to cover administrative expenses. Mr. Dowd explains that the $2,500 processing fee was determined by the PUC to provide for staff time expenses for administering leases, and that an individual determination of staff time regarding this proposed lease is not available.

- Sunol Valley would be required to pay 2 percent of annual gross revenues into a Capital Improvement Fund as noted above.

Comments:

1. According to Mr. Dowd, early in 2003, the PUC engaged the services of Dornbusch Associates, at a cost of $57,478, paid for by Sunol Valley, to perform an assessment of the economics of the original lease and the current operation of the golf course. Mr. Dowd notes that Dornbusch Associates was selected by the PUC as a consultant, based on their past experience with the Crystal Springs Golf Course Leases. Dornbusch Associates was instructed to consider the not less than $2,096,998 in capital improvements that the Lessee would be responsible for, as part of their analysis and recommendations. However, as previously noted, the scope and the estimated cost of these capital improvements, totaling $2,096,998, were determined by Tanner Consulting, a firm, not retained by the PUC, but rather retained by the lessee itself, Sunol Valley. A summary of the Dornbusch Associates findings and subsequent recommendations are described in Attachment IV, provided by the PUC.

2. Attachment V, prepared by the Budget Analyst from data provided by the PUC, is a 10-year history of Sunol Valley's gross revenues, percentage rent, and actual rent paid to the PUC. As shown in Attachment V, since 1993, percentage rents paid to the PUC by Sunol Valley always exceeded the minimum annual rent of $12,000 each year by at least $413,839 per year.

3. Attachment VI, provided by the PUC, shows that the projected internal rate of return for Sunol Valley at the existing rent structure on the month-to-month holdover basis, projected for 25 years, is 12.6 percent. According to Mr. Dowd, the appropriate internal rate of return for Sunol Valley is estimated between 17 and 21 percent, as shown on page 2 of Attachment IV. Attachment VII, also provided by the PUC, shows the projected internal rate of return for Sunol Valley at the proposed rent schedule at 16.6 percent. The Budget Analyst has not independently verified the source data used for the Dornbusch Associates calculations or that a projected rate of return for Sunol Valley of between 17 and 21 percent is appropriate. Mr. Dowd advises that the proposed percentage rent reduction for the first five years is necessitated by the $2,096,998 to be expended on required

capital improvements, in addition to substantial future capital improvements needed at both the golf course and the clubhouse. According to Mr. Dowd, the percentage rent is being reduced for the first five years to offset a majority of the $2,096,998 in required work to be performed by Sunol Valley.

"Internal rate of return" is a financial measure of the annual discount rate that makes the net present value of a series of investment cash flows equal to zero. In the context of the proposed Sunol Valley lease agreement, the higher the internal rate of return, the greater Sunol Valley's net income over the 25-year term of the new lease agreement. Therefore, the PUC's proposal to reduce Sunol Valley's percentage rent by 50 percent for the first five years of the new, 25-year lease increases Sunol Valley's Projected Cash Flow, over the 25-year term of the proposed lease by $1,410,054, or 10.4 percent, from $13,571,586 to $14,981,640, as shown below. This increase in projected cash flow for Sunol Valley increases their internal rate of return from 12.6 percent to 16.6 percent as shown below.

Lease Year	Sunol Valley - Projected Annual Cash Flow - at Existing Percentage Rent Levels	Sunol Valley - Projected Annual Cash Flow at Proposed Percentage Rent Levels (one half percentage rent for years one through five)	Difference In Sunol Valley's Projected Annual Cash Flow
1	$ (3,016,357)	$ (2,745,403)	$ 270,954
2	438,477	714,850	276,373
3	(1,117,279)	(835,379)	281,900
4	153,891	441,429	287,538
5	611,590	904,879	293,289
6	38,659	38,659	-
7	636,299	636,299	-
8	557,130	557,130	-
9	662,005	662,005	-
10	675,245	675,245	-
11	688,750	688,750	-
12	702,525	702,525	-
13	741,940	741,940	-
14	860,268	860,268	-
15	877,473	877,473	-
16	895,022	895,022	-
17	912,923	912,923	-
18	819,162	819,162	-
19	949,805	949,805	-
20	968,801	968,801	-
21	988,177	988,177	-
22	1,007,941	1,007,941	-
23	1,120,858	1,120,858	-
24	1,143,275	1,143,275	-
25	1,255,006	1,255,006	-
	$ 13,571,586	$ 14,981,640	$ 1,410,054
Average Annual Cash Flow	$ 542,863	$ 599,266	$ 56,403
Internal Rate of Return	12.6 %	16.6 %	

Therefore, by granting the 50 percent reduction in percentage rent payable by Sunol Valley for the first five years of the proposed lease agreement, the PUC will realize reduced projected revenues of $1,410,054, or $282,011 annually for five years.

Further, the Budget Analyst notes that the PUC's decision that a 16 percent internal rate of return is appropriate is based on a consultant's report, prepared by Dornbusch Associates, that ".. an appropriate nominal target rate-of-return might be projected to be as low as 16% to 20%." Dornbusch Associates report was based on:

- An analysis of Crystal Springs Golf Partners expected internal rate of return, after final negotiation of lease negotiations with the City, of 24 percent. Crystal Springs Golf Partners was awarded, through a competitive Request for Proposals process, the lease for operation of the PUC-owned Crystal Springs golf course in Burlingame, approved by the Board of Supervisors in December of 1996.

- A survey of investors in twelve leased golf club properties throughout California (and primarily in Northern California, according to Dornbusch and Associates report. Dornbusch and Associates stated that "They [the surveyed investors] reported their target returns on "unleveraged" invested capital to be in the range of 17% to 24%. Leveraged returns to equity were targeted in the range of 22% to 24%".

The Budget Analyst requested the source data for the Dornbusch and Associates survey. However, we were not provided with such source data because, according to Dornbusch and Associates response, such source data was obtained on a confidential basis and could therefore not be provided.

As noted above, the Budget Analyst did not independently verify that a projected rate of return for Sunol Valley between 17 and 21 percent is appropriate.

4. According to Mr. Dowd, the required capital improvements described above and in Attachment I are necessary for the operations of Sunol Valley. In Attachment VIII, Mr. Dowd explains why such improvements are required. Mr. Dowd advises that the installation of the capital improvements will have no impact on regular course operations and will not impact revenues beyond the reduced percentage rent during the first five years under the proposed lease.

5. The Budget Analyst notes that in the 10-year history of rents paid (shown in Attachment V), the percentage rent was considerably greater than the minimum annual rent of $12,000, which averaged $41,705 per year. Additionally, gross revenues only declined materially in three of the 10 years. The Budget Analyst notes that the proposed reduction in percentage rent for Lease Years 1 through 5 will offset $1,410,054, or 67.2 percent of the $2,096,998 in required work to be performed by Sunol Valley. In lease Years 6 through 25 the percentage rents will be returned to the same levels as are being paid under the existing lease.

6. The Budget Analyst notes that, without a competitive bidding process for the selection of a lessee for the Sunol Valley Golf Course, it is impossible to determine whether the proposed lease is in the best interest of the City. As one example, it is unknown if some other prospective bidder would have absorbed 100 percent of the costs of the required $2,096,998 in capital improvements, without requiring a rent reduction for the first five years of the new lease. While the PUC has justified their decision to not conduct a competitive bidding process partially on the basis of their representation that it would have taken one and a half to two years to conduct such a competitive process, the Budget Analyst notes that it has been over two years since the original lease with Sunol Valley expired on August 31, 2001 and that original lease has been continued by the PUC on a month-to-month holdover basis. As previously noted, the Percentage Rent under the proposed lease would be reduced for the first five years of the lease by 50 percent from the payments required under the existing lease. Further in years 6 through 25, the Percentage Rent would only return to the same levels now being paid under the existing lease, which was originally awarded approximately 38 years ago, in 1965. Therefore, the proposed lease provides for no increases in the percentage rates. There are adjustments to the minimum rent and the minimum rent is being increased from $12,000 to up to $500,000 beginning in lease year 6. However, Mr. Dowd has advised that it has always been assumed and it has been the case that the Percentage Rent and not the Minimum Rent would be paid to the

PUC. The Budget Analyst continues to question why the PUC permitted the lessee, Sunol Valley, to retain its own consultant to determine the scope and related costs of the required $2,096,098 in capital improvements instead of having the PUC retain a consultant for making such determinations.

7. According to a new lease provided to the Budget Analyst by Mr. Dowd, the PUC has renegotiated the proposed subject lease with Sunol Valley. The revisions to the proposed lease provisions from the lease previously submitted by the PUC to the Board of Supervisors are as follows:

(a) The Minimum Annual Rent payable by Sunol Valley to the PUC would be $250,000 annually or $20,833 per month for the first two years instead of the first five years. Additionally, minimum rent would be $500,000 annually or $41,667 per month for the third through the tenth Lease years, instead of the sixth through the tenth years. However, the Budget Analyst notes that Mr. Dowd has previously stated that the rent paid by Sunol Valley to the PUC has always been paid as a percentage of gross revenues and, therefore, the Minimum Rent has not been applicable under this lease.

(b) The Percentage Rent, payable by Sunol Valley to the PUC, has been changed to equal the sum of a) 5 percent of Admissions gross revenues, plus, b) 2.5 percent of Equipment Rentals gross revenues, plus, c) 4.125 percent of Concessions gross revenues, calculated and payable on a monthly basis for the first two years instead of the first five years. Then the percentage rent will increase to the sum of a) 10 percent of Admissions gross revenues, plus, b) 5 percent of Equipment Rentals gross revenues, plus, c) 8.25 percent of Concessions gross revenues, calculated and payable on a monthly basis for the third through the twenty-fifth years, instead of the sixth through the twenty-fifth years.

Therefore, the percentage rent under the renegotiated proposed lease would be reduced by 50

percent for the first two years instead of the first five years. The Budget Analyst notes that this proposed reduction in percentage rent to Sunol Valley for the first two years, instead of the first five years, would result in the PUC paying for $547,326 or 26.1 percent of the $2,096,098 in required capital improvements for the Sunol Valley Golf Course to be implemented by Sunol Valley, instead of the PUC paying for $1,410,054, or 67.2 percent, in the lease that had been previously recommended by the PUC to the Board of Supervisors. This would result in an estimated savings to the PUC of $862,728.

The PUC has also revised the lease as previously submitted to the Board of Supervisors, in accordance with the Budget Analyst's recommendation, to require Sunol Valley to expend no less than $10,800,000 in capital improvements for the Sunol Valley Golf Course, in addition to the aforementioned $2,098,998 in required capital improvements.

Summary:

In summary, this proposed new 25-year lease, would be awarded to the same lessee, Sunol Valley, who was awarded the original lease in 1965. Sunol Valley continues to lease the premises on a month-to-month basis after the PUC did not approve a six year extension under the existing lease. The new lease is being awarded on a sole source basis, without the use of competitive bidding procedures, based partially on the PUC's representation that a competitive bidding procedure could take one and a half to two years to conduct. Yet, the Budget Analyst notes that it has been over two years since the original lease with Sunol Valley expired on August 31, 2001 and that the original lease has been continued by the PUC on a month-to-month holdover basis. Under this proposed new lease, the rental rates, as determined by a percentage of gross revenues, not only have not been increased since 1965, but such rates are being reduced by 50 percent for the first two years of the proposed new lease.

However, it should be noted that the PUC has renegotiated the lease since its original submission to the Board of Supervisors. The proposed renegotiated lease

would result in estimated reduced costs to the PUC of $862,728 for the costs of the required capital improvements.

Recommendation: Approval of the proposed resolution, as amended, is a policy matter for the Board of Supervisors, based on the representation of the PUC that approval of this new lease can no longer be delayed because of environmental concerns.

Harvey M. Rose

cc: Supervisor Peskin
Supervisor Sandoval
Supervisor McGoldrick
Clerk of the Board
Controller
Ben Rosenfield
Ted Lakey

SUNOL VALLEY GOLF COURSE
Required Work

Irrigation Supply New Pipe Line

Item #	Description	QTY	Price	Amount	
1	Pump Station Improvements (Controls and Electrical Upgrade)	1	$ 59,000.00	$ 59,000.00	
2	Install 12" HDPE Pipe From PS-1 to Pond #1	2100 LF	$ 66,000.00	$ 66,000.00	
3	Design Engineering and Permitting	1	$ 13,600.00	$ 13,600.00	
			SUB TOTAL		$ 138,600.00

Pond #3 Improvement Cost Estimate

Item #	Description	QTY	Price	Amount	
1	Demolition and Mobilization	1	$ 59,000.00	$ 59,000.00	
2	Grading	1	$ 105,061.00	$ 105,061.00	
3	Spillway From Pond #3 to Pond #4	1	$ 285,000.00	$ 296,000.00	
4	12" Piping Improvements to Pond #3	1	$ 51,000.00	$ 51,000.00	
5	24" Piping Installation From Pond #3 - Pond #4	1	$ 33,000.00	$ 33,000.00	
6	Bridge over Spillway	1	$ 46,000.00	$ 46,000.00	
7	Landscape and Finish	1	$ 61,000.00	$ 61,000.00	
8	Dewatering Pumps	1	$ 19,000.00	$ 19,000.00	
9	Design Engineering and Permitting	1	$ 65,500.00	$ 65,500.00	
			SUB TOTAL		$ 735,561.00

Pond #4 and #5 Improvement Cost Estimate

Item #	Description	QTY	Price	Amount	
1	Demolition and Mobilization	1	$ 56,000.00	$ 56,000.00	
2	Spillway From Pond #4	1	$ 155,000.00	$ 155,000.00	
3	12" Piping Supply Improvements	1	$ 44,000.00	$ 14,000.00	
4	Bridge over Spillway	1	$ 46,000.00	$ 39,700.00	
5	Irrigation Pump Station (Pump, Enclosure, Filters, Intake and Wet Well)	1	$ 200,000.00	$ 200,000.00	
6	Design Engineering and Permitting	1	$ 46,400.00	$ 46,400.00	
			SUB TOTAL		$ 511,100.00

Mitigation Improvements / Maintenance Building Relocation

Item #	Description	QTY	Price	Amount	
1	Grubbing, Clean-up and Mobilization	1	$ 15,000.00	$ 15,000.00	
2	Grading	11250	$ 3.00	$ 33,750.00	
3	Electrical, Water, Sewer, Phone	1	$ 53,000.00	$ 53,000.00	
4	Buildings (2)	7400	$ 28.00	$ 207,200.00	
5	Parking and Landscape	16600	$ 4.00	$ 66,400.00	
6	Demolition of Old Structures	1	$ 53,000.00	$ 53,000.00	
7	Re-vegetation and Clean-up	1	$ 40,000.00	$ 40,000.00	
8	Fuel Tank and Chemical Storage Containment	1	$ 54,000.00	$ 54,000.00	
9	Design Engineering and Permitting	1	$ 52,200.22	$ 52,200.22	
			SUB TOTAL		$ 574,550.22

TOTAL	$ 1,959,811.22
Contingency	$ 137,186.79
Total	$ 2,096,998.00

SUNOL VALLEY GOLF & RECREATION COMPANY
CAPITAL IMPROVEMENTS
GOLF COURSE

Year	Greens(1)	Irrigation	Pavement Maint. Roac Parking Lot	Cart Paths	Equipment(2	Electric Cart Barn	Golf Cars(3)	Total
2003					$60,000			**$60,000**
2004					$61,200			**$61,200**
2005		$1,669,842	$208,080		$62,424			**$1,940,346**
2006	$106,121				$63,672	$265,302	$155,033	**$590,128**
2007	$108,243				$64,946		$158,134	**$331,323**
2008	$110,408			$496,836	$66,245		$161,296	**$834,786**
2009	$112,616				$67,570		$164,522	**$344,708**
2010	$114,869				$68,921		$167,813	**$351,602**
2011	$117,166				$70,300		$171,169	**$358,634**
2012	$119,509				$71,706		$174,592	**$365,807**
2013	$121,899				$73,140		$178,084	**$373,123**
2014	$124,337				$74,602		$181,646	**$380,586**
2015					$76,095		$185,279	**$261,373**
2016					$77,616		$188,984	**$266,601**
2017					$79,169		$192,764	**$271,933**
2018					$80,752		$196,619	**$277,371**
2019					$82,367		$200,552	**$282,919**
2020					$84,014		$204,563	**$288,577**
2021					$85,695		$208,654	**$294,349**
2022					$87,409		$212,827	**$300,236**
2023					$89,157		$217,084	**$306,240**
2024					$90,940		$221,425	**$312,365**
2025							$225,854	**$225,854**
2026							$230,371	**$230,371**
2027							$234,978	**$234,978**

(1) 4 Greens per year for 36 greens. (2) Golf course equipment, such as mowers. (3) 4 year leases, not purchase.

Estimated Inflation = 2.0%

(continued

SUNOL VALLEY GOLF & RECREATION COMPANY
CAPITAL IMPROVEMENTS
CLUBHOUSE

Year	Carpet	Roof	Dancefloor	Tables & Chairs			Office Eq./ Computers	Remodel Cafe/Bar		Total
2003							$15,000			$15,000
2004							$15,300	$153,000		$168,300
2005	$83,232						$15,606			$98,838
2006		$159,181	$21,224				$15,918			$196,323
2007							$16,236			$16,236
2008				$88,326			$16,561			$104,888
2009							$16,892			$16,892
2010	$91,895						$17,230			$109,125
2011							$17,575			$17,575
2012							$17,926			$17,926
2013							$18,285			$18,285
2014							$18,651			$18,651
2015	$101,459						$19,024			$120,483
2016							$19,404			$19,404
2017							$19,792			$19,792
2018							$20,188			$20,188
2019							$20,592			$20,592
2020	$112,019						$21,004			$133,023
2021							$21,424			$21,424
2022							$21,852			$21,852
2023							$22,289			$22,289
2024							$22,735			$22,735
2025							$23,190			$23,190
2026							$23,653			$23,653
2027							$24,127			$24,127

* Covered by annual repair and maintance expenditures.

Source: Dornbusch Associates

Total + **$1,290,792**
9 545 410

MEMORANDUM

TO: BUDGET ANALYST

FROM: GARRETT M. DOWD, DIRECTOR, SFPUC REAL ESTATE SERVICES

DATE: 10/29/03

RE: SUNOL VALLEY GOLF COURSE LEASE NEGOTIATION

Per your request, I write to further address a number of issues related to the above referenced Lease negotiation. The first issue deals with the fact that the existing Lease has been in a Month-to-Month Holdover since August 31, 2001 and the fact that the SFPUC did not formally take action to approve a Six-Year Extension Option contained in the Lease. The second issue deals with the fact that the proposed new 25-year Lease was not put out to public bid.

Month-to-Month Holdover/ Six-Year Extension Option

As to the length of the Month-to-Month Holdover the reasons are many and somewhat complicated. First and foremost, there has been serious concern over the ability to find a reliable water supply for the golf course. Traditionally Sunol Golf Course has been able to draw water directly from Alameda Creek to irrigate the course; however, in recent years this has become a major problem due to annual grading that had taken place in Alameda Creek and concern that such grading might be impacting aquatic life. To remedy this situation, staff has been working with the Lessee for well over a year and a half to design a project, which will result in a direct connection to the SFPUC's water system thus protecting Alameda Creek from future impacts and guaranteeing a reliable water supply. This project has involved numerous reviews from environmental agencies, consultants, SFPUC staff, and the City Attorney's Office.

In addition to the water supply issue, a dam spillway on the property had to be re-engineered and redesigned so as to protect a major petroleum pipeline from erosion problems at the base of the dam spillway. Over the past few years, overflow in wet weather months has been undercutting the petroleum pipeline and without a well-engineered solution the pipeline could fail causing an environmental disaster. Given that the SFPUC is the underlying fee owner of the property, liability concerns have been first and foremost.

The goal from the outset of Lease negotiations has been to solve both the water supply issue and the pipeline problem, in as expeditious a way as possible, with as little capital outlay from the City as possible

While simultaneously dealing with the aforementioned issues, staff also engaged the services of Dornbusch Associates to perform an independent assessment of the economics of the Original Lease and Sunol Valley Golf's potential future operations at the course. This assessment took a number of months to complete because there were a number of unknowns as to costs associated with the aforementioned issues (water supply remedies and the petroleum pipeline issue). In a typical domino effect, only after all pertinent cost data was gathered could the SFPUC or the tenant make an educated decision as to what the best direction was for future course operations. Thus the tenant (while reluctant) was willing to remain in a Month-to-Month holdover situation until all studies and reports were completed. Once that data was obtained, Dornbusch Associates were able to plug in the appropriate figures and make a formal presentation to the SFPUC resulting in the recommendation that is being presented to the Board of Supervisors.

In summary, the SFPUC did not approve the Six-Year Extension Option because at the time the tenant sent notice to exercise the option there were too many unknowns regarding continued water supply, costs associated with corrective action for the petroleum pipeline, and essential capital improvements needed at the course. Instead, the SFPUC opted to act in good faith and leave the Lease in a Month-to- Month Holdover until all cost data related to the aforementioned issues could be obtained and Dornbusch and Associates completed a formal study as to the appropriate business terms.

Public Bid Process

After receiving the Dornbusch Associates assessment, the SFPUC approved a new twenty-five year Lease with the current tenant. There were a number of reasons the SFPUC opted for a direct negotiation and a long term Lease, the most important of which are as follows: (1) the current Lease Agreement contains an Option Clause that allows Sunol Valley Golf Course to continue operation of the course for an additional six-year term. The clause reads, "The parties hereto mutually covenant and agree to negotiate as to the terms, conditions and rental rate for said extension, and if such negotiation results in mutual understanding and agreement, Commission, by resolution, shall grant such extension of term, subject to the covenants and conditions arrived at through such negotiations, **"which covenants and conditions shall be reasonable and fair."** On July 6, 2000 Sunol Valley Golf submitted a formal letter asking to exercise their option per the terms of the original Lease Agreement. Thus, the SFPUC had certain obligations to work with the current lessee to develop a "reasonable and fair" plan for Sunol Valley Golf's continued tenancy for at least the next six years; (2) critical and time sensitive issues related to water supply and storage and petroleum pipeline protection at the course could not be put off any longer (certainly not six years). If a direct long-term deal was not negotiated with Sunol Golf Course it is possible they could have chosen not to move forward with the Six-Year Extension Option either leaving the City in a very precarious position. In fact, given the Month-to Month term on the existing Lease the lessee could have vacated the premises with as little as 30 days notice. The City would have had to

find a new lessee in short order willing to take on $2.1 million dollars of "Required Work" and as much as $10.8 million dollars on golf course and clubhouse improvements and find a way to keep the course functioning properly throughout the entire process; (3) Sunol Golf Course has a proven (40 year) track record with the City and County of San Francisco. They have continuously proven their dedication to the facility, which was originally built by them. In order to accomplish the "Required Work" in an expedited manner this relationship was essential; (4) it is anticipated the costly improvements ($2.1 million dollars in "Required Work" and $10.8 million dollars in golf course and clubhouse upgrades) would have an adverse impact on any bid process. The bid process could have taken anywhere from 1-½ - 2 years to complete and award, as was the SFPUC's experience with Crystal Springs Golf Course in 1997. Most importantly, the SFPUC would only now be beginning the bid process given all the data that had to be obtained (water supply and pipeline remedies) and no assurances could be given that the bid wouldn't be contested by one or more of the bid participants causing even further delay and continued liability for the City.

In summary the critical work at the course could not and cannot wait any longer. The SFPUC has been very pleased with Sunol Golf Course's willingness to perform the "Required Work" and they have been very cooperative and acted in good faith throughout the negotiation process. The SFPUC is also in full support of the recommendations outlined in the Dornbusch Analysis. Upon approval of the new Lease all of the above referenced critical projects will immediately commence.

If I can offer further explanation as to any of the issues raised please feel free to contact me directly at 487-5211.

DEPARTMENT Real Estate Services AGENDA NO.

MEETING DATE September 23, 2003

SUMMARY OF PROPOSED ACTION:

Authorizing the General Manager of Public Utilities to execute on behalf of the City and County of San Francisco a lease with Sunol Valley Golf & Recreation Company (SVG&R) for approximately 280 acres of San Francisco Public Utilities Commission (SFPUC) land located on a portion of Parcels 61 and 65 of Alameda County Lands, Sunol, California, for the continued operation of a public golf course and related facilities located in Sunol, California.

Sunol Valley Golf & Recreation Company has been on a month-to-month holdover since August 31, 2001. Numerous issues related to the golf course water system operation delayed the lease extension negotiations, such as the need for the lessee to cease diverting water directly from Alameda Creek in favor of a connection to the SFPUC water system. While simultaneously addressing the aforementioned issues, staff also engaged the services of Dornbusch Associates, at Lessee's expense, to perform an independent assessment of the economics of the Original Lease and future operations of the Premises.

The following is a summary of the **key findings by Dornbusch Associates** regarding Sunol Golf Course:

- The Sunol Valley Golf and Recreation Co. (SVG&R) has demonstrated its qualifications to continue to manage the property and the City would like SVG&R to continue to manage the property, to invest in significant improvements to the golf course and clubhouse, as well as to invest in special projects necessary to rehabilitate the golf course water supply infrastructure.
- The Bay Area golf market has softened considerably over the past several years as a result of a major expansion of the golf inventory that occurred in the mid to late 1990s, combined with the effects of an economy in recession.
- Until the recent economic down turn, golf revenues at Sunol Golf Course increased fairly steadily. Even through the decline in revenues, SVG&R managed its costs to sustain a healthy profitability. Future revenues are expected to grow again when the economy improves.
- SVG&R are presently faced with a significant financial burden. New investments are required to improve the course's irrigation system, replace the greens, remodel the café/bar, repave the maintenance road and parking lot, replace the golf cart barn, and to rehabilitate the golf course water supply infrastructure. The most urgent improvement is the installation of a new water supply connection to the Sunol Aqueduct to ensure the continued reliable delivery of irrigation water for the operation of the golf course (the "Irrigation Supply System Project").
- SVG&R has made investments in the past and would need a long-term lease to justify new investments.

Recommendations From Independent Appraiser

- Given the substantial Capital Improvements that need to be made at the course, SVG&R needs a new lease term of 25 years in order to realize an appropriate rate of return, commensurate with its financial and operating risks.
- By reducing the rent on green fees, tournaments and golf cart rental to half their current levels for the next five years, then restoring the percentages to the current levels for the remainder of the lease term, SVG&R might expect a 16.6% rate of return, somewhat closer to, but still below, the 17% to 21% range which is a reasonable target for the industry.
- Rent reduction is necessitated by the nearly $2.1 million in Required Work that SVG&R is expected to fund in the first year, in addition to substantial future capital improvements needed both for the golf course and clubhouse.

Special Lease Clauses: 8.2, 8.3, [context in brackets]

8.2 Required Work:

(a) Tenant shall perform, at Tenant's sole cost and expense, certain Improvements and Alterations to the Premises, including without limitation, the Fuel Pipeline Project [a future project, subject to permitting, environmental clearance and City approval, to redesign the spillways of two irrigation ponds to eliminate erosion in vicinity of a fuel pipeline crossing the golf course], the Irrigation Supply System Project [a permanent connection to Sunol Aqueduct to allow lessee to cease pumping irrigation water directly from Alameda Creek] and Irrigation System Improvements [future irrigation system work designed to improve water use efficiency, subject to City approval]. In no event shall the completion of the Required Work be extended beyond 2 (two) years following the Commencement Date. Based on current estimates the cost of Required Work will be approximately $2,096,998.00.

8.3 Capital Improvement Program.

(a) Tenant shall establish and maintain a separate, interest-bearing account (the "Capital Improvement Fund"). Tenant shall, on or before the twentieth (20th) day of each month, deposit an amount into the Capital Improvements Fund equal to (i) two percent (2%) of the Gross Revenues from the preceding month in Lease Years 1 through 25. Such funds are to be held by Tenant in trust for the benefit of the City's interest in the Premises, including its reversionary interest in the Premises upon the expiration or earlier termination of this Lease. Interest earned on funds held in such account shall become part of the Capital Improvement Fund and all amounts remaining in the Capital Improvement Fund at the end of the Term or any earlier termination of this Lease shall be remitted to City.

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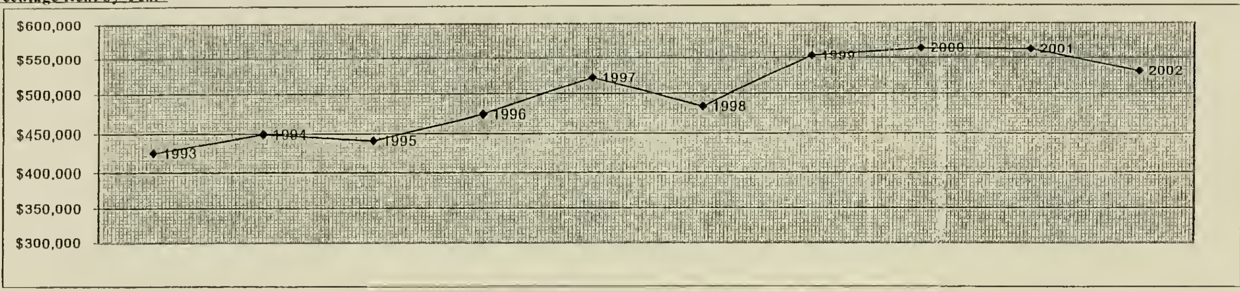
(b) Funds held in the Capital Improvement Fund shall be used exclusively for the construction, repair and replacement of capital items, including Improvements, fixtures, furniture or equipment, which are needed to repair or replace, over time, capital items which are subject to wearing out after a useful life and which are included in, located on or used in connection with the Premises, and which if not maintained or repaired, could adversely affect the City's interest in the Premises, including its reversionary interest in the Premises upon the expiration or earlier termination of this Lease. Construction of any such capital improvements shall be conducted in accordance with all provisions of Section 8.1. Funds held in the Capital Improvement Fund may not be expended for any of the Required Work.

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Gross Revenues - Sunol Valley Golf and Recreation Co.										
Green Fees	$ 1,993,363	$ 2,133,622	$ 2,103,913	$ 2,321,527	$ 2,582,950	$ 2,351,849	$ 2,776,909	$ 2,845,114	$ 2,887,894	$ 2,764,333
Cart Revenue	991,233	1,008,716	961,124	960,836	999,306	878,151	998,740	941,320	965,941	956,334
Concession Revenue	2,144,746	2,247,816	2,211,970	2,349,497	2,587,714	2,472,312	2,733,183	2,813,892	2,732,904	2,497,741
Total	$ 5,129,342	$ 5,390,153	$ 5,277,007	$ 5,631,860	$ 6,169,970	$ 5,702,312	$ 6,508,832	$ 6,600,326	$ 6,586,739	$ 6,218,408
Percent Change		5.1%	-2.1%	6.7%	9.6%	-7.6%	14.1%	1.4%	-0.2%	-5.6%
Percentage Rent Paid to PUC by Sunol Valley Golf and Recreation Co.										
Green Fees: 10%	$ 199,336	$ 213,362	$ 210,391	$ 232,153	$ 258,295	$ 235,185	$ 277,691	$ 284,511	$ 288,789	$ 276,433
Cart Revenue: 5%	49,562	50,436	48,056	48,042	49,965	43,908	49,937	47,066	48,297	47,817
Concession Revenue: 8.25%	176,942	185,445	182,488	193,834	213,486	203,966	225,488	232,146	225,465	206,064
Total	$ 425,839	$ 449,243	$ 440,935	$ 474,028	$ 521,747	$ 483,058	$ 553,115	$ 563,723	$ 562,551	$ 530,314
Percent Change		5.5%	-1.8%	7.5%	10.1%	-7.4%	14.5%	1.9%	-0.2%	-5.7%

Total Rents Paid:	$ 5,004,55
Avg. Per year:	$ 500,455.3
Avg. Per month:	$ 41,704.6

Graph of Percentage Rent by Year:



Source : Prepared by Budget Analyst using source data supplied by Public Utilities Commission.

EXHIBIT 3A

SUNOL VALLEY GOLF & RECREATION COMPANY
PROJECTED CASH FLOW & INTERNAL RATE OF RETURN
NEW CONTRACT
25 YEARS - CURRENT RENT

CAPITAL INVESTMENT		
Period	Improvements	Investment
2003-2022	Golf Course	$11,642,408
2003-2022	Club House	$1,290,792
Total		$12,933,200
Capital Investment Value		$1,499,238
INFLATION		
Inflation Assumed @		2.0%

DEPRECIATION SCHEDULE	
Depreciated Category	Life Expectancy
Furniture, Fixtures & Equipment (1)	10 Years
Pavement (2)	11 Years
Greens (2)	14 Years
Irrigation (2)	20 Years
Buildings (3)	35 Years

(1) Marshall & Swift, Life Expectancy Guidelines Section 97, Page 15
(2) Marshall & Swift, Life Expectancy Guidelines Section 97, Page 13
(3) Marshall & Swift, Life Expectancy Guidelines Section 97, Pages 5-6

PROPOSED RENT STRUCTURE		
Category	Estimated % of Gross	% Rent
Green Fees & Trnmt	46%	10.00%
Golf Car Rentals	15%	5.00%
Merchandise Sales	8%	8.25%
Food & Beverage	31%	8.25%
Other Revenues	0%	7.00%
Effective Rate on Total Revenues		8.57%

Contract Year Beginning July 1	Initial Net Capital Investment	Pre-SF Rent Pre-Tax Cash Flow	New Capital Investments	Working Capital Personal Property Recovery	Total Revenue	Rent	Annual Cash Flow
2003	($1,499,238)	$1,196,786	($2,171,998)		$6,325,146	($541,907)	($3,016,357)
2004		$1,220,722	($229,500)		$6,451,649	($552,745)	$438,477
2005		$1,485,705	($2,039,184)		$6,580,682	($563,800)	($1,117,279)
2006		$1,515,419	($786,452)		$6,712,296	($575,076)	$153,891
2007		$1,545,727	($347,559)		$6,846,542	($586,577)	$611,590
2008		$1,576,642	($939,673)		$6,983,473	($598,309)	$38,659
2009		$1,608,174	($361,601)		$7,123,142	($610,275)	$636,299
2010		$1,640,338	($460,727)		$7,265,605	($622,481)	$557,130
2011		$1,673,145	($376,209)		$7,410,917	($634,930)	$662,005
2012		$1,706,608	($383,733)		$7,559,136	($647,629)	$675,245
2013		$1,740,740	($391,408)		$7,710,318	($660,582)	$688,750
2014		$1,775,554	($399,236)		$7,864,525	($673,793)	$702,525
2015		$1,811,066	($381,856)		$8,021,815	($687,269)	$741,940
2016		$1,847,287	($286,005)		$8,182,251	($701,014)	$860,268
2017		$1,884,233	($291,725)		$8,345,896	($715,033)	$877,473
2018		$1,921,917	($297,559)		$8,512,814	($729,335)	$895,022
2019		$1,960,356	($303,511)		$8,683,071	($743,922)	$912,923
2020		$1,999,563	($421,600)		$8,856,732	($758,801)	$819,162
2021		$2,039,554	($315,772)		$9,033,867	($773,977)	$949,805
2022		$2,080,345	($322,088)		$9,214,544	($789,456)	$968,801
2023		$2,121,952	($328,530)		$9,398,835	($805,245)	$988,177
2024		$2,164,391	($335,100)		$9,586,812	($821,350)	$1,007,941
2025		$2,207,679	($249,043)		$9,778,548	($837,777)	$1,120,858
2026		$2,251,832	($254,024)		$9,974,119	($854,533)	$1,143,275
2027		$2,296,869	($259,105)	$88,865	$10,173,601	($871,623)	$1,255,006

Source: Dornbusch Associates

OPERATOR'S INTERNAL RATE OF RETURN: 12.6%

EXHIBIT 5B

SUNOL VALLEY GOLF & RECREATION COMPANY
PROJECTED CASH FLOW & INTERNAL RATE OF RETURN
NEW CONTRACT
25 YEARS - RENT REDUCTION 5 YEARS

CAPITAL INVESTMENT		
Period	Improvements	Investment
2003-2022	Golf Course	$0
2003-2022	Club House	$0
Total		$0
Capital Investment Value		$1,499,238
INFLATION		
Inflation Assumed @		2.0%

DEPRECIATION SCHEDULE	
Depreciated Category	Life Expectancy
Furniture, Fixtures & Equipment (1)	10 Years
Pavement (2)	11 Years
Greens (2)	14 Years
Irrigation (2)	20 Years
Buildings (3)	35 Years

(1) Marshall & Swift, Life Expectancy Guidelines Section 97, Page 15
(2) Marshall & Swift, Life Expectancy Guidelines Section 97, Page 13
(3) Marshall & Swift, Life Expectancy Guidelines Section 97, Pages 5-6

PROPOSED RENT STRUCTURE		
Category	Estimated % of Gross	% Rent
Green Fees & Trnmt	46%	10.00%
Golf Car Rentals	15%	5.00%
Merchandise Sales	8%	8.25%
Food & Beverage	31%	8.25%
Other Revenues	0%	7.00%
Effective Rate on Total Revenues		8.57%
Applied to Years 1 - 5		4.28%
Applied to Years 6 - 25		8.57%

Contract Year Beginning July 1	Initial Net Capital Investment	Pre-SF Rent Pre-Tax Cash Flow	New Capital Investments	Working Capital Personal Property Recovery	Total Revenue	Rent	Annual Cash Flow
2003	-$1,499,238	$1,196,786	-$2,171,998		$6,325,146	-$270,953	-$2,745,403
2004		$1,220,722	-$229,500		$6,451,649	-$276,373	$714,850
2005		$1,485,705	-$2,039,184		$6,580,682	-$281,900	-$835,379
2006		$1,515,419	-$786,452		$6,712,296	-$287,538	$441,429
2007		$1,545,727	-$347,559		$6,846,542	-$293,289	$904,879
2008		$1,576,642	-$939,673		$6,983,473	-$598,309	$38,659
2009		$1,608,174	-$361,601		$7,123,142	-$610,275	$636,299
2010		$1,640,338	-$460,727		$7,265,605	-$622,481	$557,130
2011		$1,673,145	-$376,209		$7,410,917	-$634,930	$662,005
2012		$1,706,608	-$383,733		$7,559,136	-$647,629	$675,245
2013		$1,740,740	-$391,408		$7,710,318	-$660,582	$688,750
2014		$1,775,554	-$399,236		$7,864,525	-$673,793	$702,525
2015		$1,811,066	-$381,856		$8,021,815	-$687,269	$741,940
2016		$1,847,287	-$286,005		$8,182,251	-$701,014	$860,268
2017		$1,884,233	-$291,725		$8,345,896	-$715,035	$877,473
2018		$1,921,917	-$297,559		$8,512,814	-$729,335	$895,022
2019		$1,960,356	-$303,511		$8,683,071	-$743,922	$912,923
2020		$1,999,563	-$421,600		$8,856,732	-$758,801	$819,162
2021		$2,039,554	-$315,772		$9,033,867	-$773,977	$949,805
2022		$2,080,345	-$322,088		$9,214,544	-$789,456	$968,801
2023		$2,121,952	-$328,530		$9,398,835	-$805,245	$988,177
2024		$2,164,391	-$335,100		$9,586,812	-$821,350	$1,007,941
2025		$2,207,679	-$249,043		$9,778,548	-$837,777	$1,120,858
2026		$2,251,832	-$254,024		$9,974,119	-$854,533	$1,143,275
2027		$2,296,869	-$259,105	$88,865	$10,173,601	-$871,623	$1,255,006

Source: Dornbusch Associates

OPERATOR'S INTERNAL RATE OF RETURN: 16.6%

MEMORANDUM

TO: BUDGET ANALYST

FROM: GARRETT M. DOWD, DIRECTOR, SFPUC REAL ESTATE SERVICES

DATE: 10/28/03

RE: SUNOL VALLEY REQUIRED WORK

Why are the improvements listed in 'Required Work' required?

In simplistic terms, there are ponds that hold irrigation water for the golf course. Each pond has a spillway. At the base of one of the spillways is a petroleum pipeline in jeopardy of being undercut by erosion which could snap the pipeline and cause a disastrous environmental clean up issue and knock out a major petroleum line supplying the Bay Area. The second part of the project deals with the Irrigation Supply System connecting and supplying the ponds which is essential to continued uninterrupted water supply at the course. No water = no golf course.

MEMORANDUM

TO: BUDGET ANALYST

FROM: GARRETT M. DOWD, DIRECTOR, SFPUC REAL ESTATE SERVICES

DATE: 10/23/03

RE: SUNOL VALLEY GOLF COURSE : PROPOSED RENT CONDITIONS

In response to your inquiry as to how the Minimum Base Rents were derived for the above referenced lease please note the following approach was taken:

Actual percentage rents for the past three years were analyzed and after negotiations with the tenant it was agreed that we would use 90% of the average rent paid to SFPUC as Base Rent. We then took 1/2 of that sum for the first five years in line with the recommendations in the Dornbusch Report.

In regards to how the proposed percentage rents were derived, percentage rents were recommended by Dornbusch Associates based on considerations of total required work, total capital improvements, and an appropriate rate of return to the operator. As part of the exercise he was told to try to at least keep the existing rent structure or as close to it as possible.

If I can offer further explanation as to any of the issues raised please feel free to contact me directly at 487-5211.

City and County of San Francisco
Meeting Minutes
Finance and Audits Committee

Members: Aaron Peskin, Gerardo Sandoval and Jake McGoldrick

Clerk: Linda Laws

Wednesday, December 10, 2003 **12:30 PM** **City Hall, Room 263**

Regular Meeting

51

Members Present: Aaron Peskin, Gerardo Sandoval, Jake McGoldrick.

5/.3

MEETING CONVENED

The meeting convened at 12:41 p.m.

AGENDA CHANGES

SEVERED FROM CONSENT AGENDA

031859 [Reserved Funds, S.F. Public Library]

Hearing to consider release of reserved funds, S.F. Public Library (2000 Branch Library Improvement Bonds, Resolution No. 731-02), in the amount $250,000 for fiber cable installation that will connect the Main Library to 190 9th Street, build a loading dock, and make other internal modifications to the building. (Public Library)

11/17/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

Heard in Committee. Speakers: Peter Warfield; Susan Hildreth, SF Public Library.
Supervisor Peskin requested this item be severed so it could be considered separately.
Release of reserved funds in the amount of $250,000 approved.

APPROVED AND FILED by the following vote:

Ayes: 2 - Peskin, McGoldrick
Absent: 1 - Sandoval

031884 [Expend Federal Funds - Fiscal Year 2003 Lead Hazard Reduction Demonstration Grant Program] Mayor

Resolution authorizing the Mayor of the City and County of San Francisco to expend a grant from the U.S. Department of Housing and Urban Development for lead-based paint hazard reduction in a total amount not to exceed $2,600,000, which includes indirect costs of $30,000.

(No Public Benefit Recipient.)

11/18/03, RECEIVED AND ASSIGNED to Finance and Audits Committee. Sponsor requests this item be scheduled for consideration at the December 10, 2003 meeting.

Heard in Commitee. Speaker: Joe LaTorre, Mayor's Office of Housing.
Supervisor Peskin requested this item be severed so it could be considered separately.

SEVERED FROM COMMITTEE CONSENT AGENDA.

RECOMMENDED by the following vote:
Ayes: 2 - Peskin, McGoldrick
Absent: 1 - Sandoval

REGULAR AGENDA

031798 [Fire Station 33]

Supervisor Sandoval

Hearing on the Fire Department's provision of emergency medical and fire suppression services to the Fire Station 33 district for the duration of the closure of Fire Station 33 for seismic retrofitting.

10/28/03, RECEIVED AND ASSIGNED to City Services Committee.

11/12/03, TRANSFERRED to Finance and Audits Committee.

Heard in Committee. Speakers: Male Speaker, SFFD; Giselle Quezada.
Continued to 2/4/04.

CONTINUED by the following vote:
Ayes: 3 - Peskin, Sandoval, McGoldrick

031609 [Authorizing an alternative procedure for establishing property and business improvement districts]

Supervisor Peskin

Ordinance amending Article 15 of the Business and Tax Regulations Code by amending Sections 1510 and 1511 to authorize the Board of Supervisors to initiate proceedings to establish property and business improvement districts upon receipt of a petition signed by property owners responsible for 30 percent of the proposed assessment; authorizing such districts to be formed for a term of up to 20 years; authorizing such districts to encompass and assess residential property, and repealing Sections 1513 through 1591.

9/23/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

Heard in Committee. Speakers: Gwen Kaplan, Small Business Commission; Harvey Rose, Budget Analyst; David Greenburg, Deputy City Attorney; Linda Mjellem, NOMNIC; David Overdorf; Shawn Collins; Elaine Zamora, NOMNIC; Teresa Garcia, MEDA; Jose Corona, MEDA; Philip Lesser, Mission Merchants Association; Luis Grandos, MEDA; Richard Allman; John Malloy, Lower Polk Neighbors; Ken Cleaveland, BOMA; Jeffrey Leibovitz.
Continued to 1/7/04.

CONTINUED by the following vote:
Ayes: 2 - Peskin, McGoldrick
Absent: 1 - Sandoval

031249 **[Cruise Terminal at Piers 30-32]**

Supervisor Sandoval

Hearing regarding the fiscal implications and budgetary constraints of establishing shore side power hook-ups and alternative fuel technologies related to the cruise terminal at Piers 30-32.

7/15/03, RECEIVED AND ASSIGNED to Finance and Audits Committee. Sponsor requests this item be scheduled for consideration at the September 17, 2003 meeting.

11/19/03, CONTINUED. Speakers: None.
Continued to 12/3/03.

12/3/03, CONTINUED. Speakers: None.
Continued to 12/10/03.

Heard in Committee. Speakers: Peter Dailey, Port; Jay Ach, Port; Teri Shore, Blue Water Network; Kira Schmidt, Blue Water Network; Linda Weiner, American Lung Association; Andrew Finkelstein, Our Children's Earth Foundation; El St. John, San Franciscans for a Healthy Waterfront; Tim Eichenberg, Oceana; Ellen Johnck, Bay Planning Coalition; Henry Graham, ILWU; Jeffrey Leibovitz.

CONTINUED TO CALL OF THE CHAIR by the following vote:

Ayes: 2 - Peskin, McGoldrick
Absent: 1 - Sandoval

031796 **[Management audit of San Francisco International Airport's Airfield Development Bureau]**

Supervisor Peskin

Hearing regarding findings and recommendations included in the Budget Analyst management audit of San Francisco International Airport's Airfield Development Bureau.

10/28/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

12/3/03, CONTINUED. Heard in Committee. Speaker: Eileen Boken.
Continued to 12/10/03.

Heard in Committee. Speakers: Ken Bruce, Budget Analyst's Office; Allan Gibson, Budget Analyst Office; Ted Lakey, Deputy City Attorney; Harvey Rose, Budget Analyst; Peter Nardoza, SFO; Ben Kutnick, SFO; Cathy Widener, Airport Commission; Eileen Boken, SPEAK; Nancy Wuerfel; James Chaffee; Peter Warfield.

CONTINUED TO CALL OF THE CHAIR by the following vote:

Ayes: 2 - Peskin, McGoldrick
Absent: 1 - Sandoval

031923 **[Certification to Accompany Application for State Grant for construction of an Ingleside Branch Library]**

Mayor, Supervisor Sandoval

Resolution certifying project budget, local funding, supplemental funding and public library operations pursuant to the California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000.

11/25/03, RECEIVED AND ASSIGNED to Finance and Audits Committee Sponsor requests this item be scheduled for consideration at the December 10, 2003 meeting.

12/4/03, REFERRED TO DEPARTMENT. Referred to Youth Commission for comment and recommendation.

Heard in Committee. Speakers: James Chaffee; Peter Warfield; Susan Hildreth, SF Public Library.

RECOMMENDED by the following vote:

Ayes: 2 - Peskin, McGoldrick
Absent: 1 - Sandoval

031924 **[Certification to Accompany Application for State Grant for construction of a new Ortega Branch Library]**

Mayor, Supervisor Ma

Resolution certifying project budget, local funding, supplemental funding and public library operations pursuant to the California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000.

11/25/03, RECEIVED AND ASSIGNED to Finance and Audits Committee. Sponsor requests this item be scheduled for consideration at the December 10, 2003 meeting.

12/4/03, REFERRED TO DEPARTMENT. Referred to Youth Commission for comment and recommendation.

Heard in Committee. Speakers: James Chaffee; Peter Warfield; Susan Hildreth, SF Public Library.

RECOMMENDED by the following vote:

Ayes: 2 - Peskin, McGoldrick
Absent: 1 - Sandoval

031925 **[Certification to Accompany Application for State Grant for construction of a Portola Branch Library]**

Mayor, Supervisor Maxwell

Resolution certifying project budget, local funding, supplemental funding and public library operations pursuant to the California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000.

11/25/03, RECEIVED AND ASSIGNED to Finance and Audits Committee. Sponsor requests this item be scheduled for consideration at the December 10, 2003 meeting.

12/4/03, REFERRED TO DEPARTMENT. Referred to Youth Commission for comment and recommendation.

Heard in Committee. Speakers: James Chaffee; Peter Warfield; Susan Hildreth, SF Public Library.

RECOMMENDED by the following vote:

Ayes: 2 - Peskin, McGoldrick
Absent: 1 - Sandoval

031926 **[Certification to Accompany Application for State Grant for Richmond Library Expansion and Renovation]**

Mayor, Supervisor McGoldrick

Resolution certifying project budget, local funding, supplemental funding and public library operations pursuant to the California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000.

11/25/03, RECEIVED AND ASSIGNED to Finance and Audits Committee. Sponsor requests this item be scheduled for consideration at the December 10, 2003 meeting.

12/4/03, REFERRED TO DEPARTMENT. Referred to Youth Commission for comment and recommendation.

Heard in Committee. Speakers: James Chaffee; Peter Warfield; Susan Hildreth, SF Public Library.

RECOMMENDED by the following vote:

Ayes: 2 - Peskin, McGoldrick
Absent: 1 - Sandoval

031927 **[Certification to Accompany Application for State Grant for construction of a Visitacion Valley Branch Library]**

Mayor, Supervisor Maxwell

Resolution certifying project budget, local funding, supplemental funding and public library operations pursuant to the California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000.

11/25/03, RECEIVED AND ASSIGNED to Finance and Audits Committee. Sponsor requests this item be scheduled for consideration at the December 10, 2003 meeting.

12/4/03, REFERRED TO DEPARTMENT. Referred to Youth Commission for comment and recommendation.

Heard in Committee. Speakers: James Chaffee; Peter Warfield; Susan Hildreth, SF Public Library.

RECOMMENDED by the following vote:

Ayes: 2 - Peskin, McGoldrick
Absent: 1 - Sandoval

030677 **[Requiring Slip Resistant Manhole, Vault, and Sub-sidewalk Basement Covers, Grilles, Grates, or Other Lids on the Public Sidewalk]**

Supervisor Peskin

Ordinance adding Public Works Code Section 790 to require the installation of slip resistant manhole, vaults, and sub-sidewalk basement covers, grilles, grates, or other lids on the public sidewalk to grant the Director of Public Works authority to enforce requirements, and to provide for administrative and civil penalties for violations.

(Fiscal impact.)

4/22/03, RECEIVED AND ASSIGNED to City Services Committee.

7/23/03, TRANSFERRED to Finance and Audits Committee. The Budget Analyst reports that this item has fiscal impact.

8/13/03, CONTINUED TO CALL OF THE CHAIR. Speakers: None.

11/18/03, SUBSTITUTED. Supervisor Peskin submitted a substitute ordinance bearing new title.

11/18/03, ASSIGNED to Finance and Audits Committee.

Speakers: None.

CONTINUED TO CALL OF THE CHAIR by the following vote:

Ayes: 2 - Peskin, McGoldrick
Absent: 1 - Sandoval

031883 [Mortgage Revenue Bonds]

Mayor

Resolution declaring the intent of the City and County of San Francisco (the "City") to reimburse certain expenditures from proceeds of future bonded indebtedness; authorizing the Director of the Mayor's Office of Housing (the "Director") to submit an application and related documents to the California Debt Limit Allocations Committee ("CDLAC") to permit the issuance of qualified mortgage bonds in an aggregate principal amount not to exceed $25,000,000; authorizing and directing the Director to deposit with the Controller's Office an amount not to exceed $125,000 in accordance with CDLAC procedures; authorizing the Director to certify to CDLAC that the City has on deposit the required amount; authorizing the Director to pay an amount equal to the deposit to the State of California if the City fails to issue the qualified mortgage bonds; and authorizing and directing the execution of any documents necessary to implement this Resolution and of any documents necessary to implement this Resolution; and ratifying and approving any action heretofore taken in connection with the Project (as defined herein) and the application.

(No Public Benefit Recipient.)

11/18/03, RECEIVED AND ASSIGNED to Finance and Audits Committee. Sponsor requests this item be scheduled for consideration at the December 10, 2003 meeting.

Speakers: None.

TABLED by the following vote:

Ayes: 2 - Peskin, McGoldrick
Absent: 1 - Sandoval

031526 [Airport Concession Lease]

Resolution approving Amendment No. 3 to the Post-Security Master Retail/Duty Free Concession in the New International Terminal Building Lease No. 99-0035 between DFS Group, L.P. and the City and County of San Francisco, acting by and through its Airport Commission. (Airport Commission)

(Fiscal impact; No Public Benefit Recipient.)

9/12/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.
12/3/03, CONTINUED. Speakers: None.
Continued to 12/10/03.

Speakers: None.
Continued to 12/17/03.

CONTINUED by the following vote:

Ayes: 2 - Peskin, McGoldrick
Absent: 1 - Sandoval

031828 **[Airport Revenue Bonds]**

Resolution approving the issuance of up to $225,000,000 additional aggregate principal amount of San Francisco International Airport Second Series Revenue Refunding Bonds for the purpose of refinancing 1991 Resolution Bonds and Subordinate Bonds of the Airport Commission; Approving the issuance of San Francisco International Airport Second Series Variable Rate Revenue Bonds for the purpose of financing or refinancing certain capital improvements at San Francisco International Airport, including by refunding outstanding 1991 Resolution Bonds and Subordinate Bonds of the Airport Commission; Approving the maximum interest rates thereon; Approving the forms of certain documents relating to the Bonds; Approving XI Capital Assurance Inc. as a provider of bond insurance and reserve fund Surety Bonds and the forms of certain documents relating thereto; and Approving certain amendments to the 1991 Master Resolution. (Airport Commission)

10/24/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

Heard in Committee. Speakers: Harvey Rose, Budget Analyst; Kevin Kone, Airport Commission; Eileen Boken, SPEAK; Ed Harrington, Controller.

RECOMMENDED by the following vote:

Ayes: 2 - Peskin, McGoldrick
Absent: 1 - Sandoval

031882 **[Review of Concession Opportunity]**

Supervisor Peskin

Resolution authorizing the Director of the Department of Administrative Services to issue a request for proposals for the award of an agreement for use of sites owned or occupied by the City and County of San Francisco for beverage vending services.

11/18/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

Heard in Committee. Speaker: Ted Lakey, Deputy City Attorney.

RECOMMENDED by the following vote:

Ayes: 2 - Peskin, McGoldrick
Absent: 1 - Sandoval

031814 **[Purchase of real property located at 438 Page Street, Assessor's Block 841, Lot 29]**

Supervisor Gonzalez

Resolution approving and authorizing the purchase of certain real property; adopting findings pursuant to the California Environmental Quality Act; adopting findings that the conveyance is consistent with the City's general plan and eight priority policies of City Planning Code Section 101.1; and authorizing the Director of Property to execute documents and take certain actions in furtherance of this resolution.

(Fiscal impact.)

11/4/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

Speakers: Steve Legnitto, Real Estate Division; Roger Gordon, SLUG; Jude Koski; Gabriela Barragan, Legislative Aide to Supervisor Gonzalez.
Continued to 12/17/03.

CONTINUED by the following vote:

Ayes: 2 - Peskin, McGoldrick
Absent: 1 - Sandoval

031962 [Contracting Out Own Recognizance, Pretrial Diversion, and Misdemeanant Services]

Resolution approving the Controller's certification that own recognizance release, pretrial court diversion, and supervised misdemeanant services provided to arrested persons in the City and County of San Francisco can be practically performed by private contractors at a lower cost for the year commencing July 1, 2003 than if work were performed by City and County employees. (Sheriff)

(Public Benefit Recipient.)

11/24/03, RECEIVED AND ASSIGNED to Finance and Audits Committee. Department requests this item be scheduled for consideration at the December 10, 2003 meeting.

Heard in Committee. Speaker: Jean Mariani, Sheriff's Department.

RECOMMENDED by the following vote:

Ayes: 2 - Peskin, McGoldrick
Absent: 1 - Sandoval

ADJOURNMENT

The meeting adjourned at 5:40 p.m.

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET ANALYST

1390 Market Street, Suite 1025, San Francisco, CA 94102 (415) 554-7642
FAX (415) 252-0461

December 4, 2003

TO: Finance and Audits Committee

FROM: Budget Analyst

SUBJECT: December 10, 2003 Finance and Audits Committee Meeting

Item 4 – 03-1609

Item: Ordinance amending Article 15 of the City's Business and Tax Regulations Code by amending Sections 1510 and 1511 to authorize the Board of Supervisors to initiate proceedings to establish property and business improvement districts upon receipt of a petition signed by property owners responsible for 30 percent of the proposed assessments; authorizing such districts to be formed for a term of up to 20 years; authorizing such districts to encompass and assess residential property, and repealing Sections 1513 through 1591 of the City's Business and Tax Regulations Code.

Description: The California Property and Business Improvement Act of 1994 (Section 36600 et seq. of the California Streets and Highway Code) authorizes cities to establish Property and Business Improvement Districts (PBIDs) for the purpose of levying assessments on real property for certain purposes. Further, Proposition 218, approved by the California voters on November 6, 1996, which became part of the California Constitution (Articles XIIIC and XIIID), imposes requirements applicable to assessment districts including Property and Business Improvement Districts.

The purpose of a Property and Business Improvement District is to provide property owners within the District with additional services, including safety and maintenance services, to supplement those existing services provided by their applicable governmental jurisdiction. For example, the Union Square Business Improvement District, located in an approximately ten block area surrounding Union Square, a PBID previously authorized by the Board of Supervisors, provides for increased services from additional assessments, including (a) increased sidewalk sweeping and steam cleaning, (b) improved trash and graffiti removal and a painting crew, (c) increased public safety with one Police Officer and four uniformed Community Services Ambassadors which provide citizen assistance and referral and (d) improved community and information services for visitors.

According to Mr. David Greenburg of the City Attorney's Office, upon receiving a written petition to form a PBID from property owners in the District, a resolution of intention must be approved by the Board of Supervisors in order to initiate proceedings to form a PBID. Under State law, the written petition must be signed by property owners in the proposed PBID responsible for more than 50 percent of the total assessments in the District. Mr. Greenburg reports that the written petition must include a management district plan, containing the following:

- The name of the proposed PBID;
- A map and description of the boundaries of the proposed PBID;
- The annual improvements and activities of operation of the proposed PBID, and the maximum costs;
- The total annual cost for improvements, maintenance, and operations.
- The source of funds including the proposed method and basis of levying the assessment to property owners in the proposed PBID.
- The time and manner of collecting the assessments;
- The number of years in which the assessment will be levied;
- A list of the properties to be assessed.
- A timeline for implementing the management district plan;

Under State law, the formation of a proposed PBID, and the related levy and collection of assessments, is subject to approval by the Board of Supervisors, following a public hearing and balloting in favor of the assessments by property owners in the District responsible for a majority, or more than 50 percent of the total assessment in the District.

Regarding such PBIDs, State law currently provides that:

a) the levy and collection of assessments is for i) a maximum of five years for a new District, and ii) a maximum of ten years for a renewed District;
b) assessments can be made only on commercial property; residential property is not subject to assessment in a PBID; and
c) a written petition must be signed by property owners responsible for more than 50 percent of the total assessments in the District, in order for the Board of Supervisors to initiate proceedings to form a Property and Business Improvement District.

The proposed ordinance would amend Section 1510 and 1511 of the City's Business and Tax Regulations Code to provide the City with alternatives to State law in the formation of PBIDs. Pursuant to Sections 36600 et seq. of the California Streets and Highway Code, the proposed ordinance would allow the City to deviate from such State law in the formation of PBIDs by:

a) levying and collecting assessments for i) a maximum of 20 years for a new District, instead of five years under State law, and ii) a maximum of 20 years for a renewed District, instead of ten years under State law;
b) levying and collecting assessments on residential property as well as commercial property instead of just on commercial property; and
c) initiating proceedings to form a PBID upon receiving a written petition signed by property owners in the proposed PBID responsible for more than 30 percent of the total assessments in the District instead of more than 50 percent of the total assessments in the District.

According to Mr. Greenburg, pursuant to Section 36603 of the California Streets and Highway Code, any and all of the above amendments to the Business and Tax Regulations Code may be used by the City in lieu of State law in the formation of a PBID. However, in all other respects, the formation and operation of a PBID would continue to be subject to Section 36600 et seq. of the California Streets and Highways Code, according to Mr. Greenburg.

The proposed ordinance would also repeal Sections 1513 through 1591 of Article 15 of the City's Business and Tax Regulations Code to provide for consistency with State procedures. Mr. Greenburg advises that while Article 15 of the City's Business and Tax Regulations Code provides procedures for the City to form Property and Business Improvement Districts, since the passage of Proposition 218 by California voters in November of 1996, Article 15 of the City's Business and Tax Regulations Code has been inconsistent with State law; Article 15 of the City's Business and Tax Regulations Code provides for a majority protest procedure (see Comment No. 1) to establish a PBID, rather than a property owner balloting procedure as provided by State law (see Comment No. 1). The proposed ordinance would delete the majority protest procedure currently in the City's Business and Tax Regulations Code, thereby making the City's Code consistent with State law, authorizing a property owner balloting procedure. According to Mr. Greenburg, the City has historically proceeded under State law in forming PBIDs and that, therefore, approval of this proposed ordinance simply makes the City's Business and Tax Regulations Code consistent with State law.

Comments:

1. According to Mr. Greenburg, under Article 15 of the City's existing Business and Tax Regulations Code, the City cannot impose an assessment against property owners for a PBID without first notifying all affected property owners within the District of the intent to do so. Mr. Greenburg advises that the property owners would then be afforded an opportunity to protest the imposition of an assessment under a PBID. If a majority of the property owners object to the proposed assessment through written protest, the formation of the assessment district would not proceed; this process is referred to as a majority protest procedure, according to Mr. Greenburg. The proposed ordinance would repeal Sections 1513 through 1591 of the City's Business and Tax Code to

delete the majority protest procedure, and instead provide for a property owner balloting procedure, whereby property owners are given the opportunity to cast ballots in favor of, or against, the proposed assessment.

2. As previously noted, Mr. Greenburg advises that the majority protest procedure is inconsistent with Proposition 218, approved by California voters on November 6, 1996. Mr. Greenburg advises that Proposition 218 provides for a property owner balloting procedure whereby property owners are given the opportunity to cast ballots in favor of, or against, the proposed assessment, as previously stated, instead of the majority protest procedure, wherein property owners can protest the imposition of a proposed assessment, as currently provided for under Article 15 of the City's Business and Tax Regulations Code. Under Proposition 218, in order for the assessment to be imposed, a majority of the ballots, weighted on the property owner's share of the proposed assessments, must favor the assessments. According to Mr. Greenburg, the City has historically proceeded under State law to impose assessments against property owners under a PBID.

Recommendation: Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

Item 6 - File 03-1796

Note: This item was continued by the Finance and Audits Committee at its meeting of December 3, 2003.

This is a hearing regarding the findings and recommendations included in the Budget Analyst's Management Audit of the San Francisco International Airport's Airfield Development Bureau Runway Reconfiguration Project. The management audit report was transmitted to the Board of Supervisors on May 21, 2003.

The Budget Analyst will be prepared to present the report to the Finance and Audits Committee at its meeting of December 10, 2003. A copy of the executive summary of the management audit report has been submitted to the Board file. The full management audit report is available on the City's website, at the Budget Analyst Reports page [http://ci.sf.ca.us/site/budanalyst_page.asp?id=17675].

Items 7, 8, 9, 10 and 11- Files 03-1923, 03-1924, 03-1925, 03-1926, and 03-1927

Department: Public Library

Items: Files 03-1923, 03-1924, 03-1925, 03-1926 and 03-1927: Resolution certifying project budget, local funding, supplemental funding and public library operations pursuant to the California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000, for five applications for a State grant for (1) the construction of a new Ingleside Branch Library (Item 03-1923), (2) the construction of a new Ortega Branch Library (Item 03-1924), (3) the construction of a new Portola Branch Library (Item 03-1925), (4) the expansion and renovation of the Richmond Branch Library (03-1926), and (5) the construction of a new Visitacion Valley Branch Library (Item 03-1927).

Amount of Grant Funds: $22,566,832

Source of Grant Funds: California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000 (Proposition 14), which is administered by the State Library (see Comment No. 1).

Amount of Required Match: $12,151,371

Source of Required Match: $8,865,371 from the City's Branch Library Facilities Improvement Bonds approved in November of 2000; $2,400,000 from the City's Public Buildings Safety Improvement Bonds approved in November of 1989; and $886,000 from the Friends & Foundation of the San Francisco Public Library. Attachment I, provided by the Public Library, shows the allocations of the funding sources for the required City match, for each of the five branch libraries.

Grant Amount and Required Match:

City Branch Library	Grant Amount (65% of State Eligible Project Costs)	Required Match (35% of State Eligible Project Costs)	State Eligible Project Costs
Ingleside Branch Library (03-1923)	$3,751,943	$2,020,277	$5,772,220
Ortega Branch Library (03-1924)	3,921,450	2,111,550	6,033,000
Portola Branch Library (03-1925)	3,340,223	1,798,582	5,138,805
Richmond Branch Library (03-1926)	5,958,841	3,208,606	9,167,447
Visitacion Valley Branch Library (03-1927)	5,594,375	3,012,356	8,606,731
Total	**$22,566,832**	**$12,151,371**	**$34,718,203**

Grant Period: According to Ms. Hildreth, the grant periods for the five projects are estimated to be from September of 2004 through the completion of the State required Certified Public Accountant (CPA) review of State bond fund expenditures. Ms. Hildreth reports that the estimated grant periods for each project are as follows:

Ingleside Branch Library (File 03-1923): September of 2004 through April of 2008 (approximately three years and eight months);

Ortega Branch Library (File 03-1924): September of 2004 through December of 2008 (approximately four years and four months);

Portola Branch Library (File 03-1925): September of 2004 through April of 2008 (approximately three years and eight months);

Richmond Branch Library (File 03-1926): September of 2004 through July of 2008 (approximately three years and eleven months); and

Visitacion Valley Branch Library (File 03-1927): September of 2004 September of 2008 (approximately four years and one month).

Indirect Costs: The grant terms prohibit the inclusion of indirect costs in the grant budget.

Description: The proposed five resolutions would certify five applications for State grants totaling $22,566,832, under the California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000, for a) the construction projects of four branch libraries including the Ortega Branch Library, the Ingleside Branch Library, the Visitacion Valley Branch Library and the Portola Branch Library, and b) the expansion and renovation project of the Richmond Branch Library. A description of these five projects are explained in Attachment II, provided by the Public Library. According to Ms. Susan Hildreth of the Public Library, although the City's Administrative Code does not currently require Board of Supervisors approval to apply for a grant, the State grant guidelines for the five subject grants require that the Board of Supervisors certify the grant applications, which will be submitted by January 16, 2004, including the certification of the five project budgets and the certification of the source of the matching funds required by the subject State grant, prior to submission of the five grant applications to the State Library for consideration. Ms. Hildreth advises that if the State Library awards such grant funds to the Public Library for the construction of four branch libraries including the Ingleside Branch Library, the Ortega Branch Library, the Portola Branch Library, and the Visitacion Valley Branch Library, and the expansion and renovation of the Richmond Branch Library, the Public Library will request separate approval from the Board of Supervisors to accept and expend the grant funds.

On November 7, 2000, San Francisco voters approved Proposition A, Branch Library Facilities Improvement Bonds, 2000 which authorized the City to issue up to $105,865,000 in General Obligation Bonds to (1) rehabilitate, renovate, and improve 19 existing Branch Libraries; (2) acquire land and construct four new City-owned Branch Libraries to replace Branch Libraries currently housed in leased facilities; (3) construct a new Branch Library in the Mission Bay neighborhood for a total of 24 Branch Libraries; and, (4) provide a facility for a system-wide administrative support center.

File 03-1923: According to Ms. Hildreth, the new Ingleside Branch Library would be a 6,100 square foot one-story facility, to replace a currently leased facility, to be located at 1298 Ocean Avenue at the corner of Ocean Avenue and Plymouth Street. According to Ms. Hildreth, the current annual rental costs are $98,331. Ms. Hildreth also reports that the new facility will include adult, teen and children's areas, a community room and exterior gardens; books, computers and seating will be increased from the current branch library. Ms. Hildreth advises that construction for the Ingleside Branch Library is anticipated to begin in January of 2005 and to be completed in March of 2007, or approximately two years and three months.

File 03-1924: Ms. Hildreth reports that the new Ortega Branch Library would be an 8,500 square foot one-story facility at Ortega Street and 39th Ave, to replace a City-owned facility currently located at Ortega Street and 39th Avenue. Ms. Hildreth reports that new facility will include adult, teen and children's areas, group study rooms, and a community room; books, computers and seating will be increased from the current branch library. Ms. Hildreth advises that construction for the Ortega Branch Library is anticipated to begin in May of 2006 and to be completed in November of 2007, or approximately one year and seven months.

File 03-1925: Ms. Hildreth reports that the new Portola Branch Library would be a 6,300 square foot one-story facility, to replace a currently leased facility, to be located at 380 Bacon Street at Goettingen. According to Ms. Hildreth, the current annual rental costs are $91,840. The new facility will include adult, teen and children's areas, community room and exterior open space; books, computers and seating will be increased from the current branch library, according to Ms. Hildreth. Ms. Hildreth advises that construction for the Portola Branch Library is anticipated to begin in January of 2005 and to be completed in March of 2007, or approximately two years and three months.

File 03-1926: The Richmond Branch Library is a City-owned 2-story facility located at 351 9th Ave., and occupies 9,820 square feet. Ms. Hildreth reports that the expansion

and renovation of the Richmond Branch Library includes (a) an expansion of the usable square footage of the Richmond Branch Library by 4,000 square feet from 9,280 square feet to 13,280 square feet; (b) seismic reinforcement of the existing structure; (c) renovation of the electrical, mechanical and life-safety systems; (d) renovation of the existing service counters and bathrooms to meet Americans with Disabilities Act (ADA) standards; (e) redesigning existing floor space; (f) new furniture, fixtures and equipment; (g) new floor finishes; and, (h) interior remodeling. Ms. Hildreth also reports that the expanded facility will include a program room to seat 50 persons, teen spaces, spaces for quiet reading, study rooms and staff workspace. Ms. Hildreth advises that construction for the Richmond Branch Library expansion and renovations are anticipated to begin in November of 2005 and to be completed in November of 2007, or approximately two years and one month.

<u>File 03-1927:</u> Ms. Hildreth reports that the new Visitacion Valley Branch Library, would be a 8,761 square foot one-story facility, to replace a currently leased facility, to be located at 201 Leland Avenue. According to Ms. Hildreth, the current annual rental costs are $47,089. The new facility will include adult, teen and children's areas, group study rooms, a community room and exterior courtyard; books, computers and seating will be increased from the current branch library, according to Ms. Hildreth. Ms. Hildreth advises that construction for the Visitacion Valley Branch Library is anticipated to begin in December of 2005 and to be completed in August of 2007, or approximately one year and eight months.

Budget: As shown in Attachment III, provided by Ms. Hildreth, the State's eligible project costs and the State ineligible project costs for each of the five subject Branch Library Facilities projects are as follows:

City Branch Library	State Eligible Costs[1]	State Ineligible Costs[2]	Total Project Costs
Ingleside Branch Library	$5,772,220	$216,230	$5,988,450
Ortega Branch Library	6,033,000	87,500	6,120,500
Portola Branch Library	5,138,805	46,230	5,185,035
Richmond Branch Library	9,167,447	56,230	9,223,677
Visitacion Valley Branch Library	8,606,730	64,230	8,670,960
Total	**$34,718,202**	**$470,420**	**$35,188,622**

Attachment IV, provided by Ms. Hildreth contains information on project costs which are considered ineligible by the State.

Comments: 1. In March of 2000, California voters approved the California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000 (Proposition 14). According to Ms. Hildreth, these State Bond monies must be used for library construction and remodeling projects and will be awarded on a competitive basis as explained on page 1 of Attachment II. Ms. Hildreth advises that the proposed grant application must be submitted to the State Library by January 16, 2004 for the third and final cycle of Proposition 14 grant applications. The Public Library submitted one Proposition 14 grant application in the first cycle in June of 2002 and one grant application in the second cycle in March of 2003. However the Public Library was not

[1] According to Ms. Hildreth, State Eligible Costs include costs for land acquisition, site development and demolition, architectural and engineering services, other professional services related to the project, construction costs, furniture, fixtures and equipment, and remodeling of existing buildings.

[2] According to Ms. Hildreth, State Ineligible Costs include costs for services related to the administration of a project, lease or lease-purchase payments, costs for portions of a project not related to public library direct services, the in-kind value of donations of goods or services, and the value of land owned by the applicant that is already dedicated to public library use. Other ineligible costs include public art, moving materials, equipment, and land purchase above the appraised value, according to Ms. Hildreth.

awarded grants from the State for those applications according to Ms. Hildreth.

2. Ms. Hildreth advises that the State grants totaling $22,566,832 for all five projects, require $12,151,371 in matching funds or 35 percent of total estimated State eligible costs of $34,718,202. As shown in Attachment IV, the additional costs which are not eligible for State grant funds, totaling $470,420 for all five projects, include (a) land costs above the appraised value of land, (b) works of art, and (c) moving costs, resulting in total project costs of $35,188,622.

3. As shown in Attachment I, of the $12,151,371 in required matching funds for all five projects, $8,865,371 would be provided by the Branch Library Facilities Improvement Bonds, 2000 monies, $2,400,000 would be provided by the Public Buildings Safety Improvement Bonds monies, and $886,000 would be provided by the Friends & Foundation of the San Francisco Public Library, a nonprofit organization, for furniture, fixtures and equipment for all five subject branch libraries.

4. Ms. Hildreth notes that the City's Branch Library Facilities Improvement Bonds, 2000, prohibits usage of the bond monies for movable furniture, fixtures and equipment (FFE), except for built-in shelving and casework, as explained in Attachment V, provided by Ms. Hildreth. According to Ms. Hildreth, the estimated furniture, fixtures and equipment costs, including built-in shelving and casework, will total $4,394,540 for all five Branch Library projects and will be funded as follows: (a) $2,856,452 from the subject grants, (b) $886,000 from the Friends & Foundation of the San Francisco Public Library, and $652,088 from the Branch Library Facilities Improvement Bonds, 2000, as shown in Attachment V.

5. According to Ms. Hildreth, the Department of Public Works (DPW) will provide architectural, engineering and construction management services, with the assistance of as-needed specialized consultants under contract with DPW, for the construction of the Ingleside Branch Library, Ortega Branch Library, the Portola Branch Library and the Visitacion Valley Branch Library, and the expansion and renovation of the Richmond Branch

Library. Attachment VI provided by the Public Library contains a detailed budget for such DPW costs totaling $7,604,445. These costs are included in the total project costs of $35,188,622, consisting of services to be provided by either DPW or by outside consultants. Ms. Hildreth advises that any outside consultants would be selected through a Request for Proposals process. According to Ms. Hildreth, additional budget details, including hours and hourly rates, for DPW staff and for consultant services, will be submitted to the Board of Supervisors when the Public Library requests Board of Supervisors approval to accept and expend the State grant funds. Ms. Hildreth further advises that all construction contracts would be awarded on a competitive bid basis.

6. If the City is not awarded the full amount of the subject State grant funds totaling $22,566,832 for all five projects, Ms. Hildreth advises that the scope of some of the projects would be reduced, and additional funding would be allocated from the City's Branch Library Facilities Improvement Bonds, 2000 monies.

Recommendation: Approve the proposed resolution.

Memorandum

To: Harvey Rose, Budget Analyst

From: Susan Hildreth, City Librarian

Re: City Match for Proposition 14 Applications

Date: December 1, 2003

You have requested information on the source of funds of the City match for all five library projects. Please note that, with Proposition 14 funding, the State pays for 65% of the project costs; and the local match is 35%. The ratio of the match is fixed in state law and cannot be modified.

The City match for each project is funded through two sources. The Branch Library Facilities Improvement Bonds, a measure that was passed by the voters in November 2000, provides for all construction and associated project costs other than furniture, fixtures and equipment (FFE). Costs for FFE cannot be provided for by the City's general obligation bonds. The Friends of the Library are mounting a $16 million capital campaign to provide support for branch FFE costs. Please note that the Proposition 14 State bond funds allow as eligible for funding the costs for FFE. The City's matching share for FFE is being provided by private funds from the Friends & Foundation (F&F) of the San Francisco Public Library. The amount of private funds was calculated as 35% of the estimated cost of FFE for each branch.

Branch	Total Local Match	Branch bonds	Earthquake bonds	F&F funds
Ingleside	$2,020,277	$1,865,277		$155,000
Ortega	$2,111,550	$1,941,550		$170,000
Portola	$1,798,582	$1,668,582		$130,000
Richmond	$3,208,606	$547,606*	$2,400,000	$261,000
Vis.Valley	$3,012,356	$2,842,356		$170,000
Totals	$12,151,371	$8,865,371	$2,400,000	$886,000

* The total local match from the Richmond Branch Library Expansion and Renovation is comprised of $2,400,000 in Earthquake Safety Program Bonds and $547,606 is from Branch Bond funds.

Memorandum

To: Harvey Rose, Budget Analyst

From: Susan Hildreth, City Librarian

Re: Detailed Project Information for Proposition 14 Applications for Ingleside, Ortega, Portola, Richmond and Visitacion Valley Branches

Date: December 2, 2003

You have asked the Library to provide detailed information regarding these projects. I hope to do so with the following information.

Categorization/competitiveness of projects based on State regulations
There is tremendous competition for these funds and the Library has chosen to submit its most competitive projects. Projects are divided into two categories: new construction and renovation. Each category has 1st and 2nd priority projects based on the following: new construction projects are deemed first priority if there is a joint-use agreement in place with the local public school; renovation projects are deemed first priority if the technological capacity of the local school district is very limited. Please note that the entire San Francisco Unified School District (SFUSD) has a level of technological capacity that does NOT meet the State's criteria of limited technological capacity. The projects and their priorities are shown below:

Ingleside	New construction	1st priority – joint use
Ortega	New construction	1st priority – joint use
Portola	New construction	1st priority – joint use
Richmond	Renovation	2nd priority
Visitacion Valley	New construction	1st priority – joint use

Detailed description of projects

Ingleside – This project is the construction of a new 6,100 square foot facility at 1298 Ocean Ave. and Plymouth, a new 11,120 City-owned site, to replace a leased facility at 1649 Ocean Ave. The new site is located close to City College and will eradicate a rather unsightly auto repair shop that has been a concern of the community for many years. The current leased facility is a former Bank of America building and, although the building has lovely architectural features, it was not designed to be a library and does not function well as one. The new building will include adult, teen and children's areas plus a community room and exterior gardens. Books, computers and seating will be increased from the current branch. A joint-use agreement has been developed with the Aptos Middle School for provision of a homework center and a family literacy center.

Ortega – This project is the construction of a new 8,500 square foot facility at the current site of Ortega St.and 39th Ave. to replace an existing structure of 4,507 square feet. The scope of work for this project as estimated in the current bond program provides for a renovation and slight expansion of the building. In order to develop a more competitive project for State funding, take advantage of the proximity of this facility to two schools and to address the high usage of this branch, the scope has been changed to the construction of a new facility for the Proposition 14 application. The current location is not visible from the street; and the new building will be reoriented on the street with much greater visibility. The current building will either be demolished or reused as a Recreation and Parks facility. The new building will include adult, teen and children's areas, group study rooms, a community room and a great view of the Pacific. Books, computers and seating will be increased from the current branch. A joint-use agreement has been developed with the A.P. Giannini Middle School and the Sunset Elementary School for provision of a homework center and a family literacy center.

Portola – This project is the construction of a new 6,300 square foot facility at 380 Bacon St. at Goettingen, a new 8,800 square foot site being purchased from SFUSD to replace a leased facility at 2450 San Bruno Ave. The building will include adult, teen and children's areas plus a community room and exterior open space. Books, computers and seating will be increased from the current branch. A joint-use agreement has been developed with the Martin Luther King Jr. Middle School and the E. R. Taylor Elementary School for provision of a homework center and a family literacy center.

Richmond - This project entails an expansion and a complete renovation of the Richmond Branch Library, which is an architecturally significant 1917 building that was funded by the well-known library philanthropist Andrew Carnegie. The current square footage of the branch is 9,820 and this will be increased by 4,000, for a total of 13,820 square feet. The branch will remain in its current location, but expand to the north, south and west on the site. The expansion will add a defined entryway (known as a "winter garden") facing 10th Avenue, a program room to seat 50 participants, a separate area for teens, spaces for quiet reading, study rooms and efficient staff workspace. Because these functions will be housed in the addition to the branch, the existing area of the Library will be able to accommodate growth in both children's and adult services. Technology, electrical service and mechanical systems throughout the building will be brought up to current standards, with the capability to accommodate service demands over at least the next twenty years. The building will be made seismically safe, an elevator will be installer to provide disabled access to all parts of the buildings and the public restrooms will be increased, enlarged and modernized. The landscaped areas that surround the building will also be enhanced.

Visitacion Valley – This project is the construction of a new 8,761 square foot facility at 201 Leland Ave. at Rutland, a new 16,637 square foot City-owned site, to replace a leased facility at 45 Leland Ave. The scope of work for this project as estimated in the current bond program provides for the construction of a 7,200 square foot facility. In order to develop a more competitive project for State funding and to take advantage of the size of the site and the anticipated growth in this neighborhood, the scope has been

increased from the planned 7,200 square foot branch to the proposed 8,761 square foot branch. The new site is located within the commercial district of this neighborhood on Leland Ave. and will allow for the closure of a grocery store that is the site of neighborhood difficulties. The building will include adult, teen and children's areas, group study rooms, a community room and an exterior courtyard with significant room for expansion. Books, computers and seating will be increased from the current location. A joint-use agreement with Visitacion Valley Middle and Elementary Schools has been developed for provision of a homework and family literacy center.

Bond Program funding
The Branch Library Improvement Program was submitted for consideration to the Capital Improvements Advisory Committee in the spring of 2000 at a total of $125 million. The funding was reduced by $20 million, $10 million from the Brooks Hall/Support Services Center Project and $10 million from all other projects in anticipation of receiving $10 million in Proposition 14 construction funds. Although we have estimated costs for all projects, until we receive at least $10 million in grant funds, we do not have the revenue to support the entire program. In light of that fact, the Commission created a $5 million reserve in 2002, which will not be allocated until all Proposition 14 grants are awarded. We submitted the Richmond project in Cycle 2 and received a "very good" ranking. We have the benefit of raters' written comments and have had a conference call with the raters to gather more insights. We expect to obtain an "outstanding" ranking for the Richmond project in Cycle 3 and receive the $5.9 million in state funding so that all projects in the bond program can be completed.

The Library is attempting to provide the most successful projects and leverage as much state funding as possible through the Proposition 14 opportunity. As president of the California Library Association, I am a member of a task force that has drafted language for the next library bond. This language allocates up to 50% of the bond funds to be awarded to eligible projects submitted in Cycle 3 of Proposition 14. Senator Dede Alpert has introduced SB 40 and will attempt to get it on the November 2004 statewide ballot. Therefore, it is very strategic to submit as many competitive projects as possible in Cycle 3, the current and final cycle of Proposition 14.

Earthquake Safety Bonds: The name of the bond program from which funds were allocated for the Richmond Branch Library seismic improvements and that is providing funding for a portion of this project is the Public Buildings Safety Improvement Bonds, which were approved by the voters in November 1989.

Also attached are detailed cost sheets outlining the services provided by or through Department of Public Works for the projects.

Ingleside

Library Project Budget *(All projects except Multipurpose Projects)*

If there are no costs in any line item below for the project, specify by putting a zero "0" in the blank provided.

			Eligible	Ineligible
1)	New Construction	>	$ 1,634,800	$ 0
2)	Remodeling Construction	>	$ 0	$ 0
3)	Contingency	>	$ 163,480	$ 0
4)	Appraised Value of Building	>	$ 0	$ 0
5)	Appraised Value of Land:	>	$ 1,680,000	$ 170,000
6)	Site Development	>	$ 320,000	$ 0
7)	Site Demolition	>	$ 84,000	$ 0
8)	Site Permits & Fees	>	$ 65,980	$ 0
9)	Site Option to Purchase Agreement	>	$ 0	$ 0
10)	Furnishings & Equipment Costs	>	$ 727,100	$ 0
11)	Signage	>	$ 59,200	$ 0
12)	Architectural & Engineering Costs	>	$ 578,800	$ 0
13)	Construction Cost Estimator Fees	>	$ 14,300	$ 0
14)	Interior Designer Fees	>	$ 18,700	$ 0
15)	Geotechnical/Geohazard Reports	>	$ 9,550	$ 0
16)	Hazardous Materials Consultant Fees	>	$ 74,600	$ 0
17)	Energy Audit, Structural Engineering, Feasibility & ADA Studies	>	$ 45,200	$ 0
18)	Library Consultant Fee	>	$ 24,400	$ 0
19)	Construction Project Management	>	$ 170,450	$ 0
20)	Other Professional Fees	>	$ 84,250	$ 0
21)	Local Project Administration Costs	>	$ 17,410	$ 0
22)	Works of Art	>	$ 0	$ 36,230
23)	Relocation Costs & Moving Costs	>	$ 0	$ 10,000
24)	Acquisition of Library Materials	>	$ 0	$
25)	Other (Specify):	>	$ 0	$ 0
26)	Other (Specify):	>	$ 0	$ 0
27)	Other (Specify):	>	$ 0	$ 0
28)	TOTAL PROJECT COSTS:	>	$ 5,772,220	$ 216,230

Ingleside

Sources of Project Revenue *(All projects except Multipurpose Projects)*

29)	State Matching Funds (65% of Line 28[1] Eligible Costs)	>		$ 3,751,943
30)	Local Matching Funds (Line 28 Eligible Costs minus Line 29) *[Must also equal the total of Lines 31 - 35]*	>		$ 2,020,277
	Sources of Local Matching Funds:			
	31) City	>	$ 1,865,277	
	32) County	>	$	
	33) Special District	>	$	
	34) Private	>	$ 155,000	
	35) Other (Specify):	>	$	
36)	Local Credits [Land[2] and A&E Fees]	>		$
37)	Adjusted Local Match [Line 30 minus Line 36]	>		$ 2,020,277
38)	Supplemental Local Funds [Same as Line 28 ineligible]	>		$ 216,230
39)	TOTAL PROJECT INCOME: [Add Lines 29, 30, and 38]	>		$ 5,988,450

[1] *Up to a maximum of $20,000,000*

[2] *Land credit is not allowed for land acquired by funds from the "Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998" [See Education Code section 19995 (c) which references Part 68 (commencing with section 100400 of the Education Code]]*

Funding Sources

California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000, Proposition 14	$3,751,943
Proposition A, Branch Library Facilities Improvement Bonds, 2000	$2,081,507
Friends of the San Francisco Public Library	$155,000
Total	$5,988,450

Ortega

Library Project Budget *(All projects except Multipurpose Projects)*

If there are no costs in any line item below for the project, specify by putting a zero "0" in the blank provided.

		Eligible	Ineligible
1)	New Construction......>	$ 2,312,000	$ 0
2)	Remodeling Construction......>	$ 0	$ 0
3)	Contingency......>	$ 231,200	$ 0
4)	Appraised Value of Building......>	$ 0	$ 0
5)	Appraised Value of Land......>	$ 0	$ 0
6)	Site Development......>	$ 631,500	$ 0
7)	Site Demolition......>	$ 186,800	$ 0
8)	Site Permits & Fees......>	$ 66,300	$ 0
9)	Site Option to Purchase Agreement......>	$ 0	$ 0
10)	Furnishings & Equipment Costs......>	$ 940,400	$ 0
11)	Signage......>	$ 55,500	$ 0
12)	Architectural & Engineering Costs......>	$ 1,009,650	$ 0
13)	Construction Cost Estimator Fees......>	$ 22,900	$ 0
14)	Interior Designer Fees......>	$ 110,000	$ 0
15)	Geotechnical/Geohazard Reports......>	$ 26,400	$ 0
16)	Hazardous Materials Consultant Fees......>	$ 38,500	$ 0
17)	Energy Audit, Structural Engineering, Feasibility & ADA Studies......>	$ 0	$ 0
18)	Library Consultant Fee......>	$ 0	$ 0
19)	Construction Project Management......>	$ 278,100	$ 0
20)	Other Professional Fees......>	$ 123,750	$ 0
21)	Local Project Administration Costs......>	$ 0	$ 0
22)	Works of Art......>	$ 0	$ 67,500
23)	Relocation Costs & Moving Costs......>	$ 0	$ 20,000
24)	Acquisition of Library Materials......>	$ 0	$
25)	Other (Specify): ______ >	$ 0	$ 0
26)	Other (Specify): ______ >	$ 0	$ 0
27)	Other (Specify): ______ >	$ 0	$ 0
28)	TOTAL PROJECT COSTS:......>	$ 6,033,000	$ 87,500

Ortega

Sources of Project Revenue *(All projects except Multipurpose Projects)*

29)	State Matching Funds (65% of Line 28[1] Eligible Costs)		>	$ 3,921,450
30)	Local Matching Funds (Line 28 Eligible Costs minus Line 29) *[Must also equal the total of Lines 31 - 35]*		>	$ 2,111,550
	Sources of Local Matching Funds:			
	31) City	> $ 1,941,550		
	32) County	> $		
	33) Special District	> $		
	34) Private	> $ 170,000		
	35) Other (Specify):	> $		
36)	Local Credits [Land[2] and A&E Fees]		>	$
37)	Adjusted Local Match [Line 30 minus Line 36]		>	$ 2,111,550
38)	Supplemental Local Funds [Same as Line 28 ineligible]		>	$ 87,500
39)	TOTAL PROJECT INCOME: [Add Lines 29, 30, and 38]		>	$ 6,120,500

[1] Up to a maximum of $20,000,000

[2] Land credit is not allowed for land acquired by funds from the "Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998" [See Education Code section 19995 (c) which references Part 68 (commencing with section 100400 of the Education Code)]

Funding Sources

California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000, Proposition 14	$3,921,450
Proposition A, Branch Library Facilities Improvement Bonds, 2000	$2,029,050
Friends of the San Francisco Public Library	$170,000
Total	$6,120,500

Portola

Library Project Budget *(All projects except Multipurpose Projects)*

If there are no costs in any line item below for the project, specify by putting a zero "0" in the blank provided.

			Eligible		Ineligible
1)	New Construction...>	$	1,688,400	$	0
2)	Remodeling Construction..................................>	$	0	$	0
3)	Contingency..>	$	168,840	$	0
4)	Appraised Value of Building..............................>	$	0	$	0
5)	Appraised Value of Land..................................>	$	1,287,000	$	0
6)	Site Development...>	$	298,400	$	0
7)	Site Demolition..>	$	16,400	$	0
8)	Site Permits & Fees......................................>	$	64,950	$	0
9)	Site Option to Purchase Agreement........................>	$	0	$	0
10)	Furnishings & Equipment Costs...........................>	$	645,975	$	0
11)	Signage...>	$	64,350	$	0
12)	Architectural & Engineering Costs.......................>	$	610,250	$	0
13)	Construction Cost Estimator Fees........................>	$	11,000	$	0
14)	Interior Designer Fees..................................>	$	0	$	0
15)	Geotechnical/Geohazard Reports..........................>	$	18,800	$	0
16)	Hazardous Materials Consultant Fees.....................>	$	5,450	$	0
17)	Energy Audit, Structural Engineering, Feasibility & ADA Studies.........>	$	0	$	0
18)	Library Consultant Fee..................................>	$	28,000	$	0
19)	Construction Project Management.........................>	$	126,950	$	0
20)	Other Professional Fees.................................>	$	79,400	$	0
21)	Local Project Administration Costs......................>	$	24,640	$	0
22)	Works of Art..>	$	0	$	36,230
23)	Relocation Costs & Moving Costs.........................>	$	0	$	10,000
24)	Acquisition of Library Materials........................>	$	0	$	
25)	Other (Specify): ______ >	$	0	$	0
26)	Other (Specify): ______ >	$	0	$	0
27)	Other (Specify): ______ >	$	0	$	0
28)	TOTAL PROJECT COSTS:....................................>	$	5,138,805	$	46,230

Portola

Sources of Project Revenue *(All projects except Multipurpose Projects)*			
29) State Matching Funds (65% of Line 28[1] Eligible Costs)		>	$ 3,340,223
30) Local Matching Funds (Line 28 Eligible Costs minus Line 29) *[Must also equal the total of Lines 31 - 35]*		>	$ 1,798,582
Sources of Local Matching Funds:			
31) City	> $ 1,668,582		
32) County	> $		
33) Special District	> $		
34) Private	> $ 130,000		
35) Other (Specify):	> $		
36) Local Credits [Land[2] and A&E Fees]		>	$
37) Adjusted Local Match [Line 30 minus Line 36]		>	$ 1,798,582
38) Supplemental Local Funds [Same as Line 28 ineligible]		>	$ 46,230
39) **TOTAL PROJECT INCOME:** [Add Lines 29, 30, and 38]		>	$ 5,185,035

[1] Up to a maximum of $20,000,000

[2] Land credit is not allowed for land acquired by funds from the "Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998" [See Education Code section 19995 (c) which references Part 68 (commencing with section 100400 of the Education Code)]

Funding Sources

California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000, Proposition 14	$3,340,223
Proposition A, Branch Library Facilities Improvement Bonds, 2000	$1,714,812
Friends of the San Francisco Public Library	$130,000
Total	$5,185,035

Richmond

Library Project Budget *(All projects except Multipurpose Projects)*

If there are no costs in any line item below for the project, specify by putting a zero "0" in the blank provided.

		Eligible	Ineligible
1)	New Construction >	$ 1,276,000	$ 0
2)	Remodeling Construction >	$ 2,907,080	$ 0
3)	Contingency >	$ 563,662	$ 0
4)	Appraised Value of Building >	$ 0	$ 0
5)	Appraised Value of Land >	$ 0	$ 0
6)	Site Development >	$ 540,715	$ 0
7)	Site Demolition >	$ 0	$ 0
8)	Site Permits & Fees >	$ 89,500	$ 0
9)	Site Option to Purchase Agreement >	$ 0	$ 0
10)	Furnishings & Equipment Costs >	$ 1,234,515	$ 0
11)	Signage >	$ 119,280	$ 0
12)	Architectural & Engineering Costs >	$ 1,502,400	$ 0
13)	Construction Cost Estimator Fees >	$ 35,400	$ 0
14)	Interior Designer Fees >	$ 150,000	$ 0
15)	Geotechnical/Geohazard Reports >	$ 19,000	$ 0
16)	Hazardous Materials Consultant Fees >	$ 35,000	$ 0
17)	Energy Audit, Structural Engineering, Feasibility & ADA Studies >	$ 46,570	$ 0
18)	Library Consultant Fee >	$ 58,380	$ 0
19)	Construction Project Management >	$ 418,785	$ 0
20)	Other Professional Fees >	$ 171,160	$ 0
21)	Local Project Administration Costs >	$ 0	$ 0
22)	Works of Art >	$ 0	$ 36,230
23)	Relocation Costs & Moving Costs >	$ 0	$ 20,000
24)	Acquisition of Library Materials >	$ 0	$
25)	Other (Specify): ____ >	$ 0	$ 0
26)	Other (Specify): ____ >	$ 0	$ 0
27)	Other (Specify): ____ >	$ 0	$ 0
28)	TOTAL PROJECT COSTS: >	$ 9,167,447	$ 56,230

Richmond

Sources of Project Revenue *(All projects except Multipurpose Projects)*

29)	State Matching Funds (65% of Line 28[1] Eligible Costs)			>	$ 5,958,841
30)	Local Matching Funds (Line 28 Eligible Costs minus Line 29) *[Must also equal the total of Lines 31 - 35]*			>	$ 3,208,606
	Sources of Local Matching Funds:				
	31) City	>	$ 2,947,606		
	32) County	>	$		
	33) Special District	>	$		
	34) Private	>	$ 261,000		
	35) Other (Specify):	>	$		
36)	Local Credits [Land[2] and A&E Fees]			>	$ 0
37)	Adjusted Local Match [Line 30 minus Line 36]			>	$ 3,208,606
38)	Supplemental Local Funds [Same as Line 28 Ineligible]			>	$ 56,230
39)	**TOTAL PROJECT INCOME:** [Add Lines 29, 30, and 38]			>	$ 9,223,677

[1] Up to a maximum of $20,000,000

[2] Land credit is not allowed for land acquired by funds from the "Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998" [See Education Code section 19995 (c) which references Part 68 (commencing with section 100400 of the Education Code)]

Funding Sources

California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000, Proposition 14	$5,958,841
Earthquake Safety Bond Program	$2,400,000
Proposition A, Branch Library Facilities Improvement Bonds, 2000	$603,836
Friends of the San Francisco Public Library	$261,000
Total	$9,223,677

Visitacion Valley

Library Project Budget *(All projects except Multipurpose Projects)*

If there are no costs in any line item below for the project, specify by putting a zero "0" in the blank provided.

		Eligible	Ineligible
1)	New Construction >	$ 2,356,709	$ 0
2)	Remodeling Construction >	$ 0	$ 0
3)	Contingency >	$ 235,671	$ 0
4)	Appraised Value of Building >	$ 0	$ 0
5)	Appraised Value of Land >	$ 2,200,000	$ 0
6)	Site Development >	$ 709,450	$ 0
7)	Site Demolition >	$ 503,000	$ 0
8)	Site Permits & Fees >	$ 76,350	$ 0
9)	Site Option to Purchase Agreement >	$ 0	$ 0
10)	Furnishings & Equipment Costs >	$ 846,550	$ 0
11)	Signage >	$ 62,700	$ 0
12)	Architectural & Engineering Costs >	$ 952,100	$ 0
13)	Construction Cost Estimator Fees >	$ 22,800	$ 0
14)	Interior Designer Fees >	$ 110,000	$ 0
15)	Geotechnical/Geohazard Reports >	$ 29,750	$ 0
16)	Hazardous Materials Consultant Fees >	$ 48,950	$ 0
17)	Energy Audit, Structural Engineering, Feasibility & ADA Studies >	$ 0	$ 0
18)	Library Consultant Fee >	$ 28,000	$ 0
19)	Construction Project Management >	$ 266,550	$ 0
20)	Other Professional Fees >	$ 150,150	$ 0
21)	Local Project Administration Costs >	$ 8,000	$ 0
22)	Works of Art >	$ 0	$ 54,230
23)	Relocation Costs & Moving Costs >	$ 0	$ 10,000
24)	Acquisition of Library Materials >	$ 0	$
25)	Other (Specify): ______ >	$ 0	$ 0
26)	Other (Specify): ______ >	$ 0	$ 0
27)	Other (Specify): ______ >	$ 0	$ 0
28)	TOTAL PROJECT COSTS: >	$ 8,606,730	$ 64,230

Visitacion Valley

Sources of Project Revenue *(All projects except Multipurpose Projects)*			
29)	State Matching Funds (65% of Line 28[1] Eligible Costs)........	>	$ 5,594,375
30)	Local Matching Funds (Line 28 Eligible Costs minus Line 29)........ *[Must also equal the total of Lines 31 - 35]*	>	$ 3,012,356
	Sources of Local Matching Funds:		
	31) City........ >	$ 2,842,356	
	32) County........ >	$	
	33) Special District........ >	$	
	34) Private........ >	$ 170,000	
	35) Other (Specify): ________ >	$	
36)	Local Credits [Land[2] and A&E Fees]........	>	$
37)	Adjusted Local Match [Line 30 minus Line 36]........	>	$ 3,012,356
38)	Supplemental Local Funds [Same as Line 28 ineligible]........	>	$ 64,230
39)	TOTAL PROJECT INCOME: [Add Lines 29, 30, and 38]........	>	$ 8,670,960

[1] Up to a maximum of $20,000,000

[2] Land credit is not allowed for land acquired by funds from the "Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998" [See Education Code section 19995 (c) which references Part 68 (commencing with section 100400 of the Education Code)]

Funding Sources

California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000, Proposition 14	$5,594,375
Proposition A, Branch Library Facilities Improvement Bonds, 2000	$2,906,586
Friends of the San Francisco Public Library	$170,000
Total	$8,670,961

Memorandum

To: Harvey Rose, Budget Analyst
From: Susan Hildreth, City Librarian
Re: Descriptions of State Ineligible Costs for Proposition 14 Applications and Sources of Funds for those Costs
Date: December 1, 2003

I am providing per your request detailed information on State ineligible costs for Proposition 14 applications and sources of funds for those costs. Please note that the State does not support funds for public art, but City bond funds can be used to support works of public art required for new construction. Moving costs, which provide support for moving materials and furniture out of existing buildings and into the new buildings, are also considered to be ineligible by the State but can be paid for by City bond funds..

Ingleside Branch – Total ineligible costs are $216,230

Description	Amount	Source of funds
Appraised value of land*	$170,000	City bond funds
Works of art	$36,230	City bond funds
Moving costs	$10,000	City bond funds

The State allows only the appraised value of the land as the eligible cost for the Proposition 14 application. The appraised value of the Ingleside site at its current zoning is $1,680,000. The estimated appraised value at its future zoning as a result of the proposed Balboa Park Station Area Plan is $2,147,000. The City paid $1,850,000 for the site; therefore $170,000 of that cost is ineligible.

Ortega Branch – Total ineligible costs are $87,500

Works of art	$67,500	City bond funds
Moving costs	$20,000	City bond funds

Portola Branch – Total ineligible costs are $46,230

Works of art	$36,230	City bond funds
Moving costs	$10,000	City bond funds

Richmond Branch – Total ineligible costs are $56,230

Works of art	$36,230	City bond funds
Moving costs	$20,000	City bond funds

Visitacion Valley Branch – Total ineligible costs are $64,230

Works of art	$54,230	City bond funds
Moving costs	$10,000	City bond funds

How amounts for public art were determined
San Francisco's Public Art Program, one of the first in the country, was established by City Ordinance in 1969. The amount of funds allocated for public art for each project is as follows:

Ingleside	$36,230
Ortega	$67,500
Portola	$36,230
Richmond	$36,230
Visitacion Valley	$54,230

The ordinance provides for 2% of the construction cost of civic buildings, transportation improvement projects, new parks and other above-ground structures to be allocated to public art. The Library has been working with the Art Commission staff on public art related to the bond program since the inception of the program. Public art is not included in every civic project that the City undertakes. New construction and major renovations to facilities trigger the requirement for public art in civic projects. Library and Art Commission staff reviewed the scope of the bond program and determined that the construction of the five new branches (Glen Park, Ingleside, Mission Bay, Portola and Visitacion Valley) and the substantial addition and renovation to the Richmond Branch Library would qualify as projects that would trigger the requirement for public art. All other projects, primarily renovations and very small additions, would not be subject to the requirement for the public art set-aside.

The allocation for public art for any eligible project is calculated as 2% of the project construction costs. No other design or "soft" projects costs are considered in the calculation. In the case of the Branch Library Improvement Program, the construction costs of the six (6) eligible projects was a total of $15,100,000; and 2% of that cost was $302,000. The $302,000 has been allocated as follows: administrative and other program-wide costs are $84,635; $217,365 available for the artwork for six (6) facilities, or $36,227 for each facility.

Subsequent to this cost allocation process, the Ortega project has changed from a renovation to new construction and the Visitacion Valley project scope has increased. Those changes can be seen in the higher public art amounts estimated for these projects. If the Proposition 14 funds are awarded for these projects, the Library and the Arts Commission will modify their existing agreement and cost allocation to address these enhanced projects. If the Ortega project is not funded by Proposition 14, it will revert to a renovation and slight expansion with no public art. If the increased Visitacion Valley project is not funded by Proposition 14, it will revert to the previously established public art allocation of $36,230.

An alternate approach to the public art program would be to calculate 2% of each separate project and use that allocation for public art. The average construction cost of the five (5) new branches, not including the Richmond Branch, is about $1.9 million. Applying the 2% public art allocation would result in $38,000 per project. This amount

would have to support the Art Commission administrative and program-wide costs (25% or $9,500) and would result in $28,500 for artwork for each project. By calculating the public art allocation by pooling the construction costs, instead of calculating each project separately, each new project was able to receive somewhat higher funding that would support a more significant piece of artwork for the project. This pooled approach to funding the public art program was recommended by Library and Art Commission staff and approved by the Library Commission. Because the Library and Art Commission staff are working very closely on these projects and including artists at the initial stages of project design, it is anticipated that the program will be very successful and provide public art that is well-integrated in the design of the libraries.

Memorandum

To: Harvey Rose, Budget Analyst
From: Susan Hildreth, City Librarian
Re: Project Costs not eligible for Branch Libraries Facilities Improvement Bond Funds and Source of Funds
Date: December 1, 2003

Most matching costs for these projects can be funded from the Branch Libraries Facilities Improvement Bond Funds. The specific costs that cannot be funded from City bond funds are moveable furniture, fixtures and equipments (FFE). Funds for FFE purchases for all branches are being raised by the Friends of the Library and being donated to the City. The State does allow its bond funds in this program to be used to support the acquisition of moveable FFE.

Also, the definition of FFE in the State bond ("furnishings and equipment", page 25, line 10), includes built-in shelving and casework. The built-ins and casework are costs that can be supported with the City bond funds. For instance, the "Furnishings and Equipment Costs" for the Ingleside project are $727,100, which includes $286,735 for built-ins and $440,365 for moveable FFE. The City bond funds support 35% of the costs of built-ins and casework and the Friends (private) funds support 35% of the costs for the moveable FFE for each project. The following tables display this information for each project.

FFE Costs showing State and Local Shares

Branch	Total FFE	State 65% Share	Local 35% Share
Ingleside	$727,100	$472,615	$254,485
Ortega	$940,400	$611,260	$329,140
Portola	$645,975	$419,884	$226,091
Richmond	$1,234,515	$802,435	$432,080
Vis Valley	$846,550	$550,258	$296,292
Total	$4,394,540	$2,856,452	$1,538,088

FFE Costs showing Local Funds Breakdown

Branch	Local 35% Share	City Bonds Share	Friends (Share)*
Ingleside	$254,485	$99,485	$155,000
Ortega	$329,140	$159,140	$170,000
Portola	$226,091	$96,091	$130,000
Richmond	$432,080	$171,080	$261,000
Visitacion Valley	$296,292	$126,292	$170,000
Total	$1,538,088	$652,088	$886,000

* Note: The Friends (private) share is based on the following total moveable FFE costs for each project: Ingleside - $440,365, Ortega - $473,775, Portola - $363,285, Richmond - $744,795, Visitacion Valley - $483,385

COSTS FOR DPW PROFESSIONAL SERVICES

PROJECT	AMOUNT
Richmond	2,436,695
Ingleside	1,037,660
Portola	904,490
Ortega	1,609,300
Visitacion Valley	1,616,300
Total:	$7,604,445

Project: Ingleside Branch Library DATE: 12/1/03

PROFESSIONAL SERVICES PROVIDED BY OR THROUGH DEPARTMENT OF PUBLIC WORKS (Llines 12 - 21)

	A/E Costs Line 12	Cost Est Line 13	Int Des Line 14	Geotech Line 15	Haz Mat Line 16	Studies Line 17	Lib Plnr Line 18	CM Costs Line 19	Other Line 20	Admin Line 21	TOTAL
TOTALS	578,800	14,300	18,700	9,550	74,600	45,200	24,400	170,450	84,250	17,410	1,037,660
PROFESSIONAL SERVICES											
1. OTHER SERVICES											
1.1 City Attorney										17,410	17,410
1.2 Appraisser									9,000		9,000
2. TECHNICAL SERVICES											
2.1 Assessments, Surveys, and Studies											
2.1.1 Hazardous Materials Assessments					32,800						32,800
2.1.2 Geotechnical Report				9,550							9,550
2.1.3 Surveys									7,150		7,150
2.1.4 Energy Audit *						0					0
2.1.5 Structural Testing Program *						0					0
2.2 Basic Architectural & Engineering Services											
2.2.1 Basic A/E Design Phase											
Architecture	322,500										322,500
Structural	28,000										28,000
Mechanical	10,700										10,700
Electrical	18,000										18,000
2.2.2 Basic A/E Construction Admin Phase											
Architecture	110,000										110,000
Structural	10,000										10,000
Mechanical	3,500										3,500
Electrical	6,100										6,100
2.3 Specialized Services											
2.3.1 Feasibility Study						45,200					45,200
2.3.2 Bid Contract Preparation	15,000								6,000		21,000
2.3.3 Library Planner							24,400				24,400
2.3.4 Project Management									38,000		38,000
2.3.5 Telecommunications Design									16,100		16,100
2.3.6 Hazardous Materials Specifications					10,000						10,000
2.3.7 Landscape Architecture	21,000										21,000
2.3.8 Interior Design			18,700								18,700
2.3.9 Graphic Design									10,000		10,000
2.3.10 Lighting Design *									0		0
2.3.11 Acoustic Design *									0		0
2.3.12 Detailed Cost Estimates		14,300									14,300
2.3.13 Reproduction	34,000										34,000
2.4 Construction Services											
2.4.1 Construction Management								129,800			129,800
2.4.2 Materials Testing and Inspection								40,650			40,650
2.4.3 Hazardous Materials Abatement Oversight					31,800						31,800

* N/A

Project: Ortega Branch Library DATE: 12/1/03

PROFESSIONAL SERVICES PROVIDED BY OR THROUGH DEPARTMENT OF PUBLIC WORKS (Lines 12 - 21)

	A/E Costs Line 12	Cost Est Line 13	Int Des Line 14	Geotech Line 15	Haz Mat Line 16	Studies Line 17	Lib Plnr Line 18	CM Costs Line 19	Other Line 20	Admin Line 21	TOTAL
TOTALS	1,009,650	22,900	110,000	28,400	38,500	0	0	278,100	123,750	0	1,609,300
PROFESSIONAL SERVICES											
1. OTHER SERVICES											
1.1 City Attorney *										0	0
1.2 Appraisser *											0
2. TECHNICAL SERVICES											
2.1 Assessments, Surveys, and Studies											
2.1.1 Hazardous Materials Assessments					5,000						5,000
2.1.2 Geotechnical Report				28,400							28,400
2.1.3 Surveys									14,150		14,150
2.1.4 Energy Audit *						0					0
2.1.5 Structural Testing Program *						0					
2.2 Basic Architectural & Engineering Services											
2.2.1 Basic A/E Design Phase											
Architecture	455,000										455,000
Structural	70,250										70,250
Mechanical	55,000										55,000
Electrical	71,600										71,800
2.2.2 Basic A/E Construction Admin Phase											
Architecture	152,300										152,300
Structural	21,000										21,000
Mechanical	20,000										20,000
Electrical	24,000										24,000
2.3 Specialized Services											
2.3.1 Historic Preservationist *											0
2.3.2 Bid Contract Preparation	11,000										11,000
2.3.3 Library Planner							0				0
2.3.4 Project Management									45,100		45,100
2.3.5 Telecommunications Design									15,000		15,000
2.3.6 Hazardous Materials Specifications					10,000						10,000
2.3.7 Landscape Architecture	104,500										104,500
2.3.8 Interior Design			110,000								110,000
2.3.9 Graphic Design									30,000		30,000
2.3.10 Lighting Design									16,500		16,500
2.3.11 Acoustic Design									3,000		3,000
2.3.12 Detailed Cost Estimates		22,900									22,900
2.3.13 Reproduction	25,000										25,000
2.4 Construction Services											
2.4.1 Construction Management								214,600			214,600
2.4.2 Materials Testing and Inspection								63,500			63,500
2.4.3 Hazardous Materials Abatement Oversight					23,500						23,500

* N/A

Project: Portola Branch Library DATE: 12/1/03

PROFESSIONAL SERVICES PROVIDED BY OR THROUGH DEPARTMENT OF PUBLIC WORKS (Lines 12 - 21)

	A/E Costs Line 12	Cost Est Line 13	Int Des Line 14	Geotech Line 15	Haz Mat Line 16	Studies Line 17	Lib Plnr Line 18	CM Costs Line 19	Other Line 20	Admin Line 21	TOTAL
TOTALS	610,250	11,000	0	18,800	5,450	0	28,000	128,950	78,400	24,840	904,490
PROFESSIONAL SERVICES											
1. OTHER SERVICES											
1.1 City Attorney										24,840	24,840
1.2 Appraisser									10,400		10,400
2. TECHNICAL SERVICES											
2.1 Assessments, Surveys, and Studies											
2.1.1 Hazardous Materials Assessments					5,450						5,450
2.1.2 Geotechnical Report				18,800							18,800
2.1.3 Surveys									4,350		4,350
2.1.4 Energy Audit *						0					0
2.1.5 Structural Testing Program *						0					
2.2 Basic Architectural & Engineering Services											
2.2.1 Basic A/E Design Phase											
Architecture	344,450										344,450
Structural	37,000										37,000
Mechanical	20,300										20,300
Electrical	20,200										20,200
2.2.2 Basic A/E Construction Admin Phase											
Architecture	114,800										114,800
Structural	7,000										7,000
Mechanical	3,500										3,500
Electrical	5,000										5,000
2.3 Specialized Services											
2.3.1 Historic Preservationist *											0
2.3.2 Bid Contract Preparation	15,000										15,000
2.3.3 Library Planner							28,000				28,000
2.3.4 Project Management									28,150		28,150
2.3.5 Telecommunications Design									7,800		7,800
2.3.6 Hazardous Materials Specifications *					0						0
2.3.7 Landscape Architecture	8,000										8,000
2.3.8 Interior Design *			0								0
2.3.9 Graphic Design									14,700		14,700
2.3.10 Lighting Design									14,400		14,400
2.3.11 Acoustic Design									1,800		1,600
2.3.12 Detailed Cost Estimates		11,000									11,000
2.3.13 Reproduction	35,000										35,000
2.4 Construction Services											
2.4.1 Construction Management								90,550			90,550
2.4.2 Materials Testing and Inspection								38,400			38,400
2.4.3 Hazardous Materials Abatement Oversight *					0						0

* N/A

Project: Visitacion Valley Branch Library — DATE: 12/1/03

PROFESSIONAL SERVICES PROVIDED BY OR THROUGH DEPARTMENT OF PUBLIC WORKS (Lines 12 - 21)

	A/E Costs Line 12	Cost Est Line 13	Int Des Line 14	Geotech Line 15	Haz Mat Line 16	Studies Line 17	Lib Plnr Line 18	CM Costs Line 19	Other Line 20	Admin Line 21	TOTAL
TOTALS	952,100	22,800	110,000	29,750	48,950	0	28,000	286,550	150,150	8,000	1,616,300
PROFESSIONAL SERVICES											
1. OTHER SERVICES											
1.1 City Attorney										8,000	8,000
1.2 Appraiser									8,000		8,000
2. TECHNICAL SERVICES											
2.1 Assessments, Surveys, and Studies											
2.1.1 Hazardous Materials Assessments					5,000						5,000
2.1.2 Geotechnical Report				29,750							29,750
2.1.3 Surveys									14,000		14,000
2.1.4 Energy Audit *						0					0
2.1.5 Structural Testing Program *						0					
2.2 Basic Architectural & Engineering Services											
2.2.1 Basic A/E Design Phase											
Architecture	425,000										425,000
Structural	70,000										70,000
Mechanical	55,000										55,000
Electrical	70,000										70,000
2.2.2 Basic A/E Construction Admin Phase											
Architecture	150,600										150,600
Structural	21,000										21,000
Mechanical	20,000										20,000
Electrical	22,000										22,000
2.3 Specialized Services											
2.3.1 Historic Preservationist *											0
2.3.2 Bid Contract Preparation	11,000										11,000
2.3.3 Library Planner							28,000				28,000
2.3.4 Project Management									63,850		63,850
2.3.5 Telecommunications Design									15,000		15,000
2.3.6 Hazardous Materials Specifications					10,000						10,000
2.3.7 Landscape Architecture	82,500										82,500
2.3.8 Interior Design			110,000								110,000
2.3.9 Graphic Design									30,000		30,000
2.3.10 Lighting Design									16,500		16,500
2.3.11 Acoustic Design									3,000		3,000
2.3.12 Detailed Cost Estimates		22,800									22,800
2.3.13 Reproduction	25,000										25,000
2.4 Construction Services											
2.4.1 Construction Management								205,000			205,000
2.4.2 Materials Testing and Inspection								61,550			61,550
2.4.3 Hazardous Materials Abatement Oversight					33,950						33,950

* N/A

Project: Richmond Branch Library DATE: 12/1/93

PROFESSIONAL SERVICES PROVIDED BY OR THROUGH DEPARTMENT OF PUBLIC WORKS (Lines 12 - 21)

	A/E Costs Line 12	Cost Est Line 13	Int Des Line 14	Geotech Line 15	Haz Mat Line 16	Studies Line 17	Lib Plnr Line 18	CM Costs Line 19	Other Line 20	Admin Line 21	TOTAL
TOTALS	1,502,400	35,400	150,000	19,000	35,000	46,570	58,380	418,785	171,160	0	2,436,695
PROFESSIONAL SERVICES											
1. OTHER SERVICES											
1.1 City Attorney *										0	0
1.2 Appraisser *											0
2. TECHNICAL SERVICES											
2.1 Assessments, Surveys, and Studies											
2.1.1 Hazardous Materials Assessments					5,000						5,000
2.1.2 Geotechnical Report				19,000							19,000
2.1.3 Surveys									11,000		11,000
2.1.4 Energy Audit						5,000					5,000
2.1.5 Structural Testing Program						41,570					41,570
2.2 Basic Architectural & Engineering Services											
2.2.1 Basic A/E Design Phase											
Architecture	716,000										716,000
Structural	152,000										152,000
Mechanical	65,300										65,300
Electrical	88,000										88,000
2.2.2 Basic A/E Construction Admin Phase											
Architecture	235,000										235,000
Structural	50,600										50,600
Mechanical	28,000										28,000
Electrical	23,500										23,500
2.3 Specialized Services											
2.3.1 Historic Preservationist									5,500		5,500
2.3.2 Bid Contract Preparation	11,000										11,000
2.3.3 Library Planner							58,380				58,380
2.3.4 Project Management									80,160		80,160
2.3.5 Telecommunications Design									25,000		25,000
2.3.6 Hazardous Materials Specifications					10,000						10,000
2.3.7 Landscape Architecture	110,000										110,000
2.3.8 Interior Design			150,000								150,000
2.3.9 Graphic Design									30,000		30,000
2.3.10 Lighting Design									16,500		16,500
2.3.11 Acoustic Design									3,000		3,000
2.3.12 Detailed Cost Estimates		35,400									35,400
2.3.13 Reproduction	25,000										25,000
2.4 Construction Services											
2.4.1 Construction Management								322,135			322,135
2.4.2 Materials Testing and Inspection								96,650			96,650
2.4.3 Hazardous Materials Abatement Oversight					20,000						20,000

* N/A -no property purchase

Item 12 – File 03-0677

Note: The Office of the Sponsor advises that an Amendment of the Whole will be submitted at the December 10, 2003 Finance and Audits Committee meeting. This report reflects the Amendment of the Whole.

Departments: Department of Public Works (DPW)
Public Utilities Commission (PUC)

Item: Ordinance adding Section 790 to the Public Works Code to require the installation of slip resistant manhole covers, vaults, and sub-sidewalk basement covers, grilles, grates, or other lids, excluding sewer vent and trap covers, on public sidewalks, to grant the Director of Public Works authority to enforce requirements, and to provide for administrative and civil penalties for violations.

Description: Currently, according to Mr. John Malamut of the City Attorney's Office, the City has no requirements regarding the installation of slip resistant manhole, vaults, and sub-sidewalk basement covers, grilles, grates or other lids on public sidewalks (collectively referred to as sidewalk covers). The proposed ordinance would add Section 790 to the Public Works Code to require that every person, firm or corporation, including the City, owning or having control of a sidewalk cover, excluding sewer vent and trap covers, must comply with the DPW slip resistant regulations for sidewalk covers. While slip resistant regulations have not yet been developed by the DPW, the proposed ordinance specifies that such regulations will be (1) based on the U.S. Architectural and Transportation Barriers Compliance Board's slip resistant recommendations or State of California Code of Regulations Title 24, which ever is more restrictive, (2) developed by the Director of Public Works after conducting a public hearing, and (3) specified in a Departmental Order issued by the Director of Public Works.

The proposed ordinance would require the DPW to enforce the DPW slip resistant regulations once they are developed. The proposed ordinance authorizes the Director of the DPW to issue a notice of violation to an owner or person having control of a sidewalk cover, which

does not have a slip resistant cover. The entity owning or having control of the sidewalk cover could request the DPW to hold a public hearing within seven days of the receipt of the notice of violation in order to contest the violation. If the entity owning or having control of the sidewalk cover does not request a hearing within that seven day period, the violation would be presumed final and the owner would have 30 days to abate the violation by installing the slip resistant cover. If the entity owning or having control of the sidewalk covers fails to abate the violation, the DPW is authorized to abate the violation in the manner that the Director of DPW determines is expedient and appropriate, and then the violator would be required to reimburse the DPW for the costs incurred by the DPW in installing the slip resistant sidewalk cover.

The proposed ordinance also authorizes the Director of DPW to assess administrative penalties, in his or her discretion but not to exceed $1,000 per day per violation. The proposed ordinance also authorizes the Director of the DPW to bill the entity owning or having control of the sidewalk cover for DPW's reasonable enforcement costs, including attorney's fees. The proposed ordinance also provides for civil penalties, the amount of which would be determined by a court, but not to exceed $500 per day. Therefore, the administrative penalties combined with civil penalties could not exceed $1,500 per day.

The proposed ordinance requires the Director of Public Works to report to the Board of Supervisors, within one-year after the effective date of the proposed ordinance, on the effectiveness of and compliance with DPW's slip resistant regulations.

Comments:

1. According to the Office of the Sponsor, the intent of the proposed ordinance is to protect the public from injuries that may result from slipping on sidewalk covers. Mr. Malamut states that the proposed ordinance would apply to manhole covers owned and controlled by the PUC and private utilities and other sidewalk covers owned or controlled primarily by commercial businesses. Mr. Malamut states that the proposed ordinance would

exclude sidewalk sewer vents or traps[1] which are owned and controlled by property owners, as a result of their indoor plumbing which must conform to the City's Plumbing Code.

2. According to Ms. Barbara Moy of the DPW, the DPW would develop its slip resistant regulation within 30 to 60 days after the approval of the proposed ordinance. Mr. Malamut advises that once these regulations are developed, every person, firm or corporation, including the City, owning or having control of a sidewalk cover would have 30 days, from the date of a determination of a violation by the Director of the DPW, to install or make existing sidewalk covers slip resistant in conformance with the DPW slip resistant regulations.

As of the writing of this report, the DPW could not provide an estimate as to the number of privately owned and controlled manhole covers or other sidewalk covers that are not slip resistant and could not provide a cost estimate for enforcing the proposed ordinance. Ms. Moy of the DPW states that the DPW would likely enforce the proposed ordinance based on complaints reviewed by the DPW.

3. According to Mr. Tom Franza of the Public Utilities Commission (PUC), the PUC maintains up to an estimated 1,000 manhole covers that are on public sidewalks. Mr. Franza advises that none of these manhole covers have slip resistant covers. Mr. Franza states that while the DPW slip resistant regulations have not yet been developed, Mr. Franza believes that the cost effective approach to make manhole covers slip resistant would likely be to coat manhole covers with a slip resistant spray-on material. As shown in the Attachment, provided by Mr. Franza, the estimated initial cost to coat an estimated 1,000 manhole covers on sidewalks is not expected to exceed $100,000 or $100 per cover. Mr. Franza notes that this coating process may need to be repeated every three to five years to ensure that the manhole covers remain slip resistant, therefore resulting

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[1] Sewer vents or traps are required by the City's Plumbing Code to be two feet from the curb on the sidewalk. These vents or traps are typically four inches by four inches with perforated metal covers.

in additional ongoing costs. According to Mr. Franza such ongoing costs cannot be estimated at this time but would depend on the future cost of coating the manhole cover and how often the coating process would need to be repeated. As shown in the Attachment, the cost of coating manhole covers located in streets, which are not included in the proposed ordinance, is $130 or $30 more than the cost of coating manhole covers located on sidewalks.

4. For privately owned sidewalk covers, Mr. Franza advises that the cost of coating the sidewalk covers to make them slip resistant would be approximately $6 per square foot plus a service charge if a private vendor were to perform the work. Mr. Franza cannot estimate the cost of replacing sidewalk covers instead of coating the covers.

Recommendation: Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

SLIP RESISTANT MANHOLE COVERS
BY: TJFRANZA 7/31/03

Preliminary estimate to provide public sewers with a non-slip type manhole cover meeting ASTM Standard C1028

Assumptions:

- Existing covers do not meet ASTM Standard C1028
- Covers are coated at a centralized location to meet ASTM Spec
- Coating cost is based on informal vendor conversations
- Transportation cost is for roundtrip to and from coating location

	ALL COVERS		PEDESTRIAN AREAS ONLY	
Coating Application	**Street**	**Sidewalk**	**Street**	**Sidewalk**
Approximate number of covers City-wide:	23,800	1,000	1,000	1,000
Coatings, est. cost per cover	$60	$30	60	$30
Total estimated coating cost	$1,428,000	$30,000	$60,000	$30,000
Cover Transportation				
Estimated transportation time per cover, hours:	0.50	0.50	0.50	0.50
Crew cost per hour; burdened (2 persons@$70/hr)	$140	$140	$140	$140
Total estimated labor cost:	$1,666,000	$70,000	$70,000	$70,000
One-Time Cost:	$3,094,000	$100,000	$130,000	$100,000
Cost per Cover:	**$130**	**$100**	**$130**	**$100**
	Total	**$3,194,000**	**Total**	**$230,000**

Note: No attempt is made here to address maintenance costs over the long term. It is possible that coated covers will have to be redone every 3 to 5 years, so there will be long term O&M costs.

TJF 8/5/03 3:14 PM

Item 13 – File 03-1883

Department: Mayor's Office of Housing (MOH)

Item: Resolution declaring the intent of the City and County of San Francisco (the "City") to reimburse certain expenditures from proceeds of future bonded indebtedness; authorizing the Director of the Mayor's Office of Housing (the "Director") to submit an application and related documents to the California Debt Limit Allocations Committee ("CDLAC") to permit the issuance of qualified Multifamily Housing Revenue Bonds in an aggregate principal amount not to exceed $25,000,000; authorizing and directing the Director to deposit with the Controller's Office an amount not to exceed $125,000 in accordance with CDLAC requirements; authorizing the Director to certify to CDLAC that the City has on deposit the required amount; authorizing the Director to pay an amount equal to the deposit to the State of California if the City fails to issue the qualified Multifamily Housing Revenue Bonds; and authorizing and directing the execution of any documents necessary to implement this Resolution; and ratifying and approving any action heretofore taken in connection with the Project (as defined herein) and the application.

Amount: Not to exceed $25,000,000

Source of Funds: Multifamily Housing Revenue Bonds

Description: This proposed resolution would authorize the City to submit an application to the California Debt Limit Allocation Committee (CDLAC) to permit the issuance of Multifamily Housing Revenue Bonds in an amount not to exceed $25,000,000 to provide short term construction financing and subsequent permanent financing to fund a multifamily rental housing development at 810 Battery Street, known as the Broadway Family Apartments. The property at 810 Battery Street was formerly part of the right of way of the Embarcadero Freeway.

According to Mr. Joel Lipski of the MOH, Chinatown Community Development Center (Chinatown CDC), a nonprofit agency, is the Developer of the Broadway

Family Apartments. Mr. Lipski reports that Chinatown CDC currently estimates that short term construction financing bond proceeds of $18,100,000, out of a total project cost of $31,951,753 as detailed below, are needed for construction of an 87 unit multi-family housing development on the 810 Battery Street site. In addition, 10-year and 30-year Multifamily Housing Revenue Bonds will be issued in the amounts of $1,745,472 (for the 10-year bonds) and $3,010,336 (for the 30-year bonds) as part of the permanent financing source of funds, as explained in Comment 3, below. The MOH will not know the precise amount of bonds that will be required until bids are received and the MOH prepares to issue bonds in June or July of 2004. According to Mr. Lipski, any unused portion of the CDLAC bond authorization would be returned to the State for allocation to other projects later in the year.

The subject Multifamily Housing Revenue Bonds would be used to partially finance the acquisition and construction of the Broadway Family Apartments, an 87-unit multifamily rental housing development for low- and moderate- income persons. Currently, the 30,937 square foot site contains an 11,000 square foot parking lot, a 750 square foot electronic transformer that provides electric power to an adjacent building and 19,187 square feet of vacant land that is currently not being used.

The total estimated project costs for the Broadway Family Apartments development is $31,951,753, as shown in Attachment I, provided by the MOH. As shown in Attachment II, provided by the MOH, in addition to the proposed short term bond financing of $18,100,000 for construction, the total project cost of $31,951,753 for the subject 87-unit multifamily rental housing development will be funded from the following sources: (1) $10,150,000, including $4,150,000 from a MOH loan and $6,000,000 from the City's Affordable Housing Bond Program (Proposition A, approved in November of 1996[1]), (2) $172,500 Deferred Developer Fee (3) $846,326 in costs deferred during construction until the Permanent Loan

[1] In November of 1996, the voters of San Francisco approved Proposition A, which authorized the City to issue $100,000,000 in General Obligation Bonds to: (1) finance the development of rental housing affordable to low income households and (2) to provide down payment assistance to low- and moderate-income first-time homebuyers (the "Affordable Housing Bonds").

closing occurs, and (4) $2,682,927 in Limited Partners Capital Contributions. During the estimated construction period, expected to begin in July of 2004, and end in December of 2005, interest only payments (capitalized interest) on the $18,100,0000 in short-term construction financing at an estimated interest rate of five percent would cost $1,047,050 and would be funded from the sources of funds detailed in Attachment II.

The developer, Chinatown CDC will lease the site, located at 810 Battery Street, from the City under a below market long-term ground lease beginning on January 1, 2004 (see Comment No. 1).

According to Mr. Lipski, all 87 units of the Broadway Family Apartments would be for low- and moderate-income families. Mr. Lipski reports that 66 of the 87 units will be occupied by qualifying households earning no more than 50 percent of area median income of $91,500 for a family of four, or $45,750 for a family of four, and the remaining 21 units will be occupied by families coming off the Housing Authority's Section 8 waiting list, whose income cannot exceed 50 percent of area median income, or $45,750 for a family of four. Mr. Lipski further reports that most of the families on the Housing Authority's Section 8 waiting list have incomes much lower than 50 percent of area median income. Mr. Lipski reports that construction is expected to begin in July of 2004 and be completed by December of 2005. Mr. Lipski advises that the Broadway Family Apartments development would contain the following unit mix: 29 studio units; 30 two-bedroom units; and 28 three-bedroom units.

Budget:

Attachment I contains budget details to support the proposed project expenditures of $31,951,753.

Comments:

1. On September 23, 2003 the Board of Supervisors approved (1) a Lease Disposition and Development Agreement and (2) a Ground Lease between the MOH and Chinatown CDC for the development of affordable housing at 810 Battery Street that would commence January 1, 2004 and end 65 years from the completion of construction, or on December 31, 2070 (File 03-1404). At the end of the 65-year term, Chinatown CDC would have

the option to extend the lease for an additional 34 years, for a total Ground Lease term of 99 years, ending on approximately December 31, 2104.

2. As previously stated, Mr. Lipski reports that the MOH expects to issue the proposed Multifamily Housing Revenue Bonds, in June or July of 2004. As previously noted, Mr. Lipski advises that actual amount of bonds that will be issued has not yet been finally determined. However, the current estimate for construction financing, as shown in Attachment II, is $18,100,000. Mr. Lipski advises that the estimated interest rate on the $18,100,000 in the short-term construction financing is five percent annually. According to Mr. Lipski, construction is estimated to begin in July of 2004 and be completed by December of 2005.

3. On completion of the construction of the proposed Broadway Family Apartments development project, permanent financing for the $31,951,753 total project cost, which will include the repayment of the $18,100,000 principal amount of the short-term construction financing, will be funded from a variety of sources, as detailed on pages 3 and 4 of Attachment II. The sources of funds for permanent financing include $1,745,472 in Multifamily Housing Revenue Bonds, to be financed over 10 years, and $3,010,336 in Multifamily Housing Revenue Bonds to be financed over 30 years. The table below summarizes the principal and interest payments and annual debt service for the 10-year bonds and the 30-year bonds, assuming an interest rate of 6.5 percent.

	Multifamily Housing Revenue Bonds	
	10-Year Bonds	30-Year Bonds
Principal Amount	$1,745,472	$3,010,336
Total Interest Payments	632,868	3,839,504
Total Principal and Interest	$2,378,340	$6,849,840
Annual Debt Service	$237,834	$228,328

4. Mr. Lipski reports that the subject Multifamily Housing Revenue Bonds would be repaid from rental revenues generated by the Broadway Family Apartments Project and that the City's General Fund would not be liable for repayment of these bonds. According to Mr. Mark Blake of the City Attorney's Office, these Revenue Bonds do not require the City to pledge repayment of the bonds, and the City has no legal liability with respect to the repayment of the Revenue Bonds.

5. According to Mr. Lipski, Chinatown CDC has selected, through an Request for Qualifications (RFQ) process, Roberts-Obayashi as the general contractor for the Broadway Family Apartments Project. Mr. Lipski reports that (1) Nibbi Brothers, (2) SJ Amoroso, and (3) Lem/Transworld Joint Venture also responded to the RFQ. Mr. Lipski notes that while Chinatown CDC's RFQ review panel was comprised solely of Chinatown CDC staff, its interview panel included outside experts.

Recommendation: Approve the proposed resolution.

BROADWAY FAMILY APARTMENTS

PAGE 1-A

Uses of Funds

Version: BROADWAY FAMILY - MHP 10/3/03 Revised: 25-Nov-03

USES OF FUNDS		94.91707%		DEPRECIABLE				94.92% TAX CREDIT ELIGIBLE	
100.000	TOTAL	TOTAL RESIDENTIAL	NON-DEPREC.	RESIDENTIAL	NON-RES	EXPENSE	AMORTIZE	CONST/ REHAB	ACQUIS.
ACQUISITION COSTS									
Land	500.000	474.585	500.000						
Building	0	0	0	0	0				0
									0
GENERAL DEVELOPMENT COSTS									
Unit Construction	13.858.693	13.858.693	0	13.858.683	0		0	13.858.693	
Commercial Shell Construction	894.526	0	0	0	894.526		0	0	
Parking	2.845.407	2.700.777	0	2.700.777	144.630		0	2.700.777	
Construction Contingency	2.142.308	2.052.855	0	2.052.855	89.453			2.052.855	
Contractor Overhead and Profit	2.501.600	2.374.445	0	2.374.445	127.155			2.374.445	
Local Development Impact Fees	282.000	267.666	0	282.000	0			282.000	
Local Permits/Fees	500.000	474.585		474.585	25.415			474.585	
Phase I/Asbestos/Toxics (land-related)	25.000	23.729	25.000	0	0			0	
Bond Premium	136.435	129.500		129.500	6.935			129.500	
Environmental Remediation	75.000	71.188	75.000	0	0			0	
Site Improvements/Landscape	1.186.416	1.126.111		1.126.111	60.305			1.126.111	
Architecture	1.400.000	1.328.839		1.328.839	71.161			1.328.839	
Survey & Geotechnical Studies	67.000	63.594		63.594	3.406			63.584	
Appraisal (land)	10.000	9.492	10.000	0	0		0	0	
Market Study	8.000	8.000					8.000		
Construction Supervision	100.000	94.917		94.917	5.083			94.917	
Relocation	0	0	0	0	0			0	
Predevelopment Interest	10.000	9.492	10.000	0	0			0	0
Construction Testing/Inspection	50.000	47.459	0	47.459	2.541			47.459	0
Construction Period Interest	1.040.750	987.849		730.150	39.100	271.500		730.150	0
Title/Recording/Escrow - Construction	10.000	9.492		9.492	508			9.492	0
Title/Recording/Escrow - Permanent	10.000	10.000					10.000		
Real Estate Taxes/Insurance During Const	142.000	134.782		110.087	7.218	24.696		110.087	0
Soft Cost Contingency	500.335	474.903		474.903	25.432			474.903	
Title/Recording/Escrow - Acquisition	10.000	10.000	10.000	0	0			0	0
TCAC Application/Monitoring Fee	45.611	45.611					45.611		
Legal: Acquisition	20.000	20.000	20.000	0	0			0	0
Construction Closing	20.000	18.983		18.983	1.017			18.983	0
Permanent Closing	20.000	20.000					20.000	0	
Organization of Prtshp	5.000	5.000					5.000	0	
Syndication	35.000	35.000	35.000						
Syndication Consulting	40.000	40.000	40.000					0	0
Audit/Cost Certification	20.000	20.000				20.000	0		
Furnishings	150.000	150.000		150.000	0			150.000	
Rent-Up Account	80.000	80.000				80.000			
Initial Deposit to Replacement Reserve	0	0	0						
Operating Reserve	267.316	267.316	267.316						
Services	5.000	5.000				5.000			
Property Management Start-Up Costs	25.000	25.000				25.000	0		
Archeology	75.000	71.188	75.000	0	0			0	
Child Care Space Tenant Improvements	1.104.353	0			1.104.353				
Developer Fee	1.200.000	1.138.005		1.139.005	60.995			1.139.005	0
COSTS OF ISSUANCE/FINANCING FEES									
Lender Counsel	40.000	37.967					40.000	0	
Bond Counsel	40.000	37.967					40.000	0	
Issuer Fee (SFRA)	181.000	171.800					181.000		
Lender Orig. Fee	216.669	205.655		0			216.869	0	0
Lender Expenses	30.000	28.475				0	30.000	0	0
COLAC Fee	6.335	6.013					6.335		
Contingency	20.000	18.983					20.000		
Subtotal - Financing/Costs of Issuance	534.004	506.861	0	0	0	0	534.004	0	0
TOTAL DEVELOPMENT COSTS	31.951.753	29.181.918	1.067.316	27.166.396	2.669.232	426.196	622.615	27.166.396	0

per unit:		335.539
	367.262	91.36%

TCAC DEVELOPER FEE CALCULATION	CONST.	ACQ.	total
Maximum Potential TCAC Fee per Basic Formula	3.904.109	-	3.904.109
Percent of Total	100.00%	0.00%	100.00%
Maximum Allowable TCAC Fee (prorated)*	2.500.000	-	2.500.000
		-	
MHP Allowed Fee	1,027,500	-	1.027.500
MHP Allowed Deferred Fee			1.200.000
TCAC Allowed Fee			2.500.000
			-
SFRA Allowed Fee			1.558.000
Fee Shown in Uses Budget			1.200.000
Difference Between TCAC & SFRA Dev Fee (GP Contribution)			-
Difference Between MHP deferred & MHP Capitalized Dev Fee (Deferred Dev			172.500

SFRA DEVELOPER FEE CALCULATION	
Developer Admin	306.000
Unrestricted Dev. Fee	200.000
Restricted Dev. Fee	1.050.000
TOTAL	1.556.000

BROADWAY FAMILY APARTMENTS

PAGE 1

Prepared For:	Chinatown CDC
Prepared By:	California Housing Partnership Corporation
Version:	BROADWAY FAMILY - MHP 10/3/03

BROADWAY INITIAL RUN 9%-3.xls
Revised: 25-Nov-03

SOURCES OF FUNDS

OURCES OF FUNDS - PERMANENT

	AMOUNT	BOND/ INTEREST RATE	OID INTEREST RATE	TERM (Yr)	COMMENTS
Tax-Exempt Bond - Res & Comm.	3,010,336	6.500%		30	
Tax-Exempt Bond - Section 8 Increment	1,745,472	6.500%		10	
San Francisco MOH Loan	4,150,000	3.000%	1.788%	55	Contingent interest for Capital Accounts
San Francisco MOH Grant	6,000,000	0.000%	0.000%		
HCD MHP	7,110,000	3.000%	2.208%	55	Mandatory MHP interest 0.42%
Child Care Space Funding Sources	604,353	0.000%	0.000%		
MHP NSSS	500,000	3.000%	2.208%	55	
AHP	430,000	0.000%	0.000%	30	
Deferred Developer Fee	172,500	0.000%			
Capital Contributions					
General Partner	0				
Limited Partners	8,229,093				
OTAL SOURCES	31,951,753				
rplus/(Shortfall)	0				

OURCES OF FUNDS - CONSTRUCTION

	AMOUNT	INT RATE	TERM (Mo.)	
Tax-Exempt Bond - Construction	18,100,000	5.00%	23	Likely Commitment Amount = 18,070,864
San Francisco MOH Loan	4,150,000	3.00%	23	
San Francisco MOH Grant	6,000,000	0.00%	23	
Costs Deferred Until Permanent Loan Closing	846,326			
Deferred Developer Fee	172,500			
Capital Contributions				
General Partner	0	0.00%		
Limited Partners	2,682,927	0.00%		% of total pay-in: 32.60%
TOTAL SOURCES	31,951,753			
rplus/(Shortfall)	0			

Broadway Apartments Proposed Financing Plan

I. Construction Financing – Construction financing is short-term financing during the construction period. This financing is typically in place at the beginning of construction and is repaid at the end of construction with permanent financing. Financing during this period of the project's development is necessary because certain lending institutions are only willing to put their financing in a project during the construction period. This minimizes their risk if they will be repaid after a 12-24 month construction period. For projects funded with Low Income Housing Tax Credits, tax credit investors typically pay their equity contribution (syndication proceeds) over the span of several years (2-7 years) and often not make a significant contribution until the project is operating in order to maximize their internal rate of return. As a result, projects must obtain a construction loan during the construction period and possibly a bridge loan to repay the construction loan until all syndication proceeds are received. This financing structure is used by lenders for affordable and market-rate housing nationwide.

1. Tax-Exempt Bonds – Construction Phase $18,100,000

We have yet to determine the tax-exempt housing revenue bond financing provider and structure for this transaction. This will be determined prior to the January 2004 California Debt Limit Allocation Committee (CDLAC) application round. Based on preliminary responses to an RFP for credit enhancer/construction period lenders, this proforma assumes a rate of 5% for a term of 23 months. This bond will essentially act as a construction loan and will be in place during the project's construction period. At permanent bond conversion, the bond will be repaid/taken out with the project's permanent bonds, California Department of Housing and Community Development's Multifamily Housing Program (MHP) funding, and tax credit equity.

2. City of San Francisco – Mayor's Office of Housing $10,150,000

The City of San Francisco has committed $10,150,000 in permanent financing to this project. $6,000,000 is in the form of a grant from the Affordable Housing Bond Program that was passed by the voters in November 1996 and described under Board of Supervisor Resolution No. 463-00, File No. 000786 and Section 43.3 of the San Francisco Administrative Code. The remaining $4,150,000 will be loaned to the project at a rate of 3% simple for a term of 55 years, of which $3,611,166 is from the Affordable Housing Bond Program and $538,834 is from the Jobs Housing Linkage Program as set forth in Section 313 of the San Francisco Planning Code. Payments for both loans will be made on a residual receipts basis.

3. Costs Deferred during Construction $846,326

Source: Mayor's Office of Housing

A number of costs will be deferred until permanent loan closing, including some legal costs, California Tax Credit Allocation Committee (TCAC) monitoring fees, reserves, and a portion of the developer fee.

4. Deferred Developer Fee $172,500

The project expects to defer $172,500 of the developer fee. This will be paid back from project cash flow.

5. Limited Partners Capital Contributions $2,682,927

The project is expected to receive a 4% equity pay-in during the project's construction phase. It is expected to be approximately $2,682,927. These proceeds will be used to pay for construction-period expenses.

NOTE: This equity pay-in is considerably higher than was projected in August and replaces contributions from the general partner (including some deferred developer fee). The difference is associated with a reduction in the allowable total developer fee (which was expected to be the source of the general partner contributions) permitted under the State Multifamily Housing Program (MHP). A change in the MHP regulations reduced the permitted fee from $2.5 million to $1.2 million. This change is reflected in the Uses table as well.

Source: Mayor's Office of Housing

Total Construction Financing: **$31,951,753**

II. Permanent Financing – Permanent financing is long-term financing that may be fully amortized for a period of at least 10 years if it is long-term debt or repaid through mechanism such as residual receipts to insure the affordability of the housing. Certain permanent financing sources cannot be used during the construction period; therefore those sources are often used to repay construction-period loans.

1. Tax-Exempt Bonds — Tranche A: $3,010,336
Tranche B: $1,745,472

As mentioned above, we have yet to determine the tax-exempt housing revenue bond financing provider and structure for this transaction. This will be determined prior to the CDLAC January application round. Both Tranche A and B bond issues will be fixed-rate bonds. The first tranche is valued at $3,010,336 and will be supported by the project's residential Net Operating Income (NOI), excluding the Section 8 subsidy. It will be for a term of 30 years at an estimated rate of 6.5.00%. The second tranche will function as a Section 8 increment loan (21 of the units will have project-based Section 8 from the San Francisco Housing Authority) at an amount equal to $1,745,472 for a term of 10 years at an estimated rate of 6.5.00%. These bonds are essentially loans that are repaid from the project's residential cash flow.

NOTE: Both tranches are higher than was estimated in August because the interest rate assumptions have been reduced. Based on a review of currently available rates, these lower rates and higher yields are still conservative.

2. City of San Francisco – Mayor's Office of Housing — $10,150,000

Same as above.

3. Affordable Housing Program — $430,000

Chinatown CDC expects to apply for $430,000 in Federal Home Loan Bank's Affordable Housing Program (AHP) funds in 2004. This funding will be provided to the project as permanent financing and will be at a rate of 0% for a term of 30 years. This will be used to repay the construction-period bonds.

4. HCD Multifamily Housing Program Funding — $7,110,000

This project sponsor applied to the California Housing and Community Development's (HDC) Multifamily Housing Program in October of 2003 for a commitment of

Source: Mayor's Office of Housing

$7,110,000. This will function as a residual receipts loan at 3% simple for a term of 55 years. The program requires a mandatory interest payment of 0.42% per year. For this project, this equates to $29,862 annually. This loan will be used to repay the construction-period bonds since it cannot be used during the construction period

5. MHP Non-Residential Support Services Space (NSSS) $500,000

The MHP Program will provide a $500,000 grant for building out child care space associated with the housing for which it is lending the $7.1 million described above. In order to qualify for this grant, the Uses have also been increased to include the costs associated with building out this space.

5. Child Care Provider $604,353

Since the costs of building out the child care space exceed the $500,000 available from MHP, an additional $604,353 will need to be raised by the child care provider.

6. Deferred Developer Fee $172,500

Since the $172,500 deferred developer fee to be used during construction will not be repaid until after completion out of project income, it is shown as a permanent source of financing as well.

7. Limited Partner Capital Contributions (Net Proceeds) $8,229,093

The project is expected to receive an additional equity pay-in from the investor limited partner at the end of construction which will bring the total next syndication proceeds to approximately $8,229,093. This equity will be used to repay the construction-period bond.

NOTE: The net syndication proceeds estimate has been increased by approximately $650,000, reflecting a slight increase in the expected pricing of the tax credits (to approximately .88 per dollar of credit). This increase brings the estimated pricing closer to currently available prices and increases the project's competitiveness for MHP funds insofar as it increases the leveraging of MHP funds.

Total Permanent Financing: $31,951,753

Source: Mayor's Office of Housing

Item 14 - File 03-1526

Note: This item was continued by the Finance and Audits Committee at its meeting of December 3, 2003.

Department:	Airport
Item:	Resolution approving Amendment No. 3 to the Post-Security Master Retail/Duty Free Concession Lease at the Airport's International Terminal Building between DFS Group, L.P. and the City and County of San Francisco, acting by and through its Airport Commission.
Location:	Airport's International Terminal
Lessor:	City and County of San Francisco, acting by and through its Airport Commission
Lessee:	The DFS Group L.P., a Delaware limited partnership ("DFS")
Effective Date of Lease Amendment No. 3:	January 1, 2003- December 31, 2003 (see Comment No. 5)
Background:	The subject lease agreement with DFS is for "post-security" retail space that is located beyond the security checkpoints in the International Terminal. This lease agreement, which was awarded on the basis of a competitive bid process, and which is a ten-year concession lease, commenced at the opening of the International Terminal in May of 2000 and will expire in

May of 2010. This lease agreement currently covers 57,353 square feet in 29 locations.[1] The lease was approved by the Board of Supervisors on April 5, 1999 (Resolution No. 283-99) and the subsequent Amendments No. 1 and No. 2 were approved by the Board of Supervisors on August 23, 2002 (Resolution No. 552-02).

Rent Payable by DFS To the Airport Under Original Lease:

Under the previously approved and executed concession lease, DFS is responsible for both the direct provision of duty-free[2] retail stores and the subleasing of non-duty free[3] retail stores.[4] The original concession lease required DFS to pay the Airport rent which is the greater of either (a) a Minimum Annual Guarantee (MAG) of $26,100,000[5] or (b) a percentage of annual gross revenues in accordance with the following table:

	Type of Sales	
Annual Gross Revenues	Duty Free	Non-Duty Free
Up to and including $50,000,000 ($4,166,667 monthly)	15%	12%
$50,000,000.01 to $100,000,000 ($4,166,667 to $8,333,333 monthly)	20%	14%
Over $100,000,000 (over $8,333,333 monthly)	25%	16%

Airport Concession Support Program:

On October 30, 2002, the Airport enacted the Airport Concession Support Program, which was previously approved by the Board of Supervisors (File No. 02-1230).

[1] The original lease covered 55,422 square feet in 57 locations, but was amended in January of 2000 (File No. 99-1869) to cover 57,353 square feet in 29 locations.

[2] "Duty-free" merchandise is defined as goods sold without taxation to international travelers for consumption outside of the United States of America.

[3] "Non-duty free" merchandise is defined as goods that are taxed at the point of sale.

[4] According to Ms. Patricia Maitland of the Airport, and as shown in Attachment I to this report, DFS operated in the International Terminal the duty-free stores as well as some of the non duty-free stores (California Wine Country Gourmet, Cool Tees stores, Leather Report, Mainspring Watches, San Francisco Bay Traders, San Francisco Wine Gourmet, and Soliton). Ms. Maitland states that the remaining non duty-free stores are subleased to other tenants.

[5] The duty-free and non duty-free stores were originally subject to a single MAG of $26,100,000 annually.

Under the Airport Concession Support Program, the MAG for duty-free sales was suspended retroactively from September 11, 2001 through December 31, 2002.[6] While the MAG was suspended during that 15½ month period, the duty-free stores paid rent at the rate of 30 percent of all gross revenues. The Airport Concession Support Program reinstated the MAG for the duty-free sales on January 1, 2003. The MAG for the non-duty free sales was also suspended and this suspension is still in effect and will not be lifted until monthly airline passenger departures exceed 85 percent of the number of departures in 2000 for two consecutive months, which has not occurred to date. Therefore, the non-duty free stores are paying rent at the rate of 12 percent of gross revenues annually because sales have not exceeded $50,000,000 annually. As required by the Concession Support Program, the non-duty free stores have been paying 12 percent of gross revenues since November 1, 2001. The Airport's Concession Support Program specifies that if the MAG for the duty free stores is reinstated before the MAG for the non duty-free stores, the MAG will be separated into a (1) duty-free MAG, and (2) a non duty-free MAG. The duty-free MAG is $23,490,000 annually, or 90 percent of the total MAG of $26,100,000. The non duty-free MAG is $2,610,000, or 10 percent of the total MAG of $26,100,000. As previously stated, the Airport Concession Support Program reinstated the duty-free MAG on January 1, 2003 and the non-duty free MAG is still suspended.

Description: The proposed resolution would approve Amendment No. 3 to the concession lease between DFS and the Airport. Amendment No. 3 would retroactively (1) suspend the duty-free MAG of $23,490,000 with respect to duty-free stores, and (2) establish a new duty-free rent schedule retroactive to January 1, 2003. The proposed resolution states that the duty-free MAG of $23,490,000 would be reinstated on January 1, 2004 or the 1st day of the consecutive month when the monthly gross revenues on duty-free sales equals or exceeds $5,000,000 per month, whichever comes first. Amendment No. 3 also provides that once the duty-free MAG is reinstated, the duty-free

[6] The Airport Concession Program allowed for a suspension of the MAG for the duty-free stores between September 11, 2001 and December 31, 2002 because gross revenues in the duty-free stores did not exceed $5,000,000 for two consecutive months during this time period.

MAG cannot be adjusted or suspended again for the remainder of the current lease, which terminates in May of 2010. However, Amendment No. 3 also states that "on or before January 1, 2004, [the] Director shall review [the] tenant's duty free gross revenues for calendar year 2003 to determine if a further suspension of the tenant's MAG is warranted" (see Comment No. 6). Amendment No. 3 does not alter the status of the non-duty-free stores which continue to pay rent at the rate of 12 percent of gross revenues because the annual revenues are less than $50,000,000.

New Rent Schedules:

The proposed Amendment would establish two new duty-free rent schedules (1) retroactively from January 1, 2003 through December 31, 2003, and (2) from January 1, 2004 through May 1, 2010. The new retroactive duty-free rent schedule from January 1, 2003 through December 31, 2003, would be as follows:

Time Period	Duty-Free
January 1, 2003 – March 31, 2003	31%
April 1, 2003 – December 31, 2003	
Up to $3,000,000 in monthly sales	25%
$3,000,000 and over in monthly sales	31%

The above proposed new duty-free rent schedule would replace the existing lease requirement that DFS pay the <u>greater</u> of either (a) the duty-free MAG of $23,490,000, or (b) a percentage of annual gross revenues noted in the Section above entitled Rent Payable by DFS to the Airport Under Original Lease (see Comment No. 1).

Additionally, under Amendment No. 3, DFS would pay a monthly payment of $312,500 for any 2003 calendar month in which the duty-free gross revenues exceed the duty-free gross revenues by 10 percent or more for the same calendar month of 2002, retroactive to January 1, 2003. According to Ms. Patricia Maitland of the Airport, to date, the duty-free gross revenues in 2003 exceeded gross revenues by 10 percent or more for the same month of 2002 in January of 2003 and based on unauditted revenues figures and projections, this may also occur in October and December of 2003. Therefore, this provision

is projected to provide for an additional payment from DFS to the Airport in calendar year 2003 of $312,500 to $937,500 ($312,500 times 3 months).

As noted above, the proposed Amendment No. 3 also provides for a second new rent schedule from January 1, 2004 through May 1, 2010 which would require DFS to pay the Airport the greater of either (a) a duty-free MAG of $23,490,000 or (b) higher percentage of annual gross revenues shown below as compared to the percentages of annual gross revenues under the existing lease:

Annual Gross Revenues	Existing Lease for Duty-Free	Proposed Lease Amendment for Duty-Free as of January 1, 2004
Up to and including $50,000,000 ($4,166,667 monthly)	15%	20%
$50,000,000.01 - $100,000,000 ($4,166,667 to $8,333,333 monthly)	20%	25%
Over $100,000,000 (over $8,333,333 monthly)	25%	30%

As shown above, the proposed lease Amendment would also establish a new rent schedule from January 1, 2004 to May 1, 2010, which would retain the MAG of $23,490,00 and increase the percentage of annual gross revenues.

Comments:

1. Attachment II to this report, provided by Ms. Maitland, shows the duty-free stores gross monthly revenues[7], and rent owed and paid by DFS to the Airport for the duty-free stores from December 2000 through December 2003. Based on the data in Attachment II, under the existing lease Agreement, the duty-free stores would owe the duty-free MAG between January 1, 2003 and December 31, 2003 of $23,490,000 ($1,957,500 monthly) because the duty-free MAG would be greater than a percentage of annual gross revenues. As shown in Attachment II, under the proposed lease Amendment, the duty-free stores

[7] Attachment II details actual gross revenues for the duty-free stores from January 2003 through October 2003 and projected gross revenues in November and December 2003.

would owe a total of approximately $12,092,975 (including January payment of $312,500) between January 1, 2003 and December 31, 2003, which is $11,397,025 or 48.5 percent less in rent than the duty-free MAG which would be owed under the existing lease agreement. The Budget Analyst notes that under the proposed lease Amendment, DFS could owe an additional $625,000 ($312,500 for November and $312,500 for December) depending on whether gross revenues exceed by 10 percent gross revenues for the same months of 2002.

2. According to Mr. David Pfeiffer of the Airport, and as described in Attachment III to this report, a rent reduction of an estimated $11,397,025, or 48.5 percent, is warranted for the duty-free stores for calendar year 2003 because "duty free operations are completely tied to international passenger traffic, which has been severely and disproportionately effected by SARS [Severe Acute Respiratory Syndrome] and the Iraq war." Mr. Pfeiffer further notes that "DFS sought and was given economic relief at Honolulu and Los Angeles International Airports."

The Budget Analyst reviewed the Honolulu and Los Angeles International (LAX) Airports duty-free rent reduction agreements with DFS. According to Mr. Alan Chock of the Honolulu Airport, the Honolulu Airport did not suspend the MAG of $60,000,000 for DFS, but rather terminated and competitively bid the concession contract in September of 2003. Mr. Chock states that DFS was the only respondent to the request for proposals (RFP) and the Honolulu Airport awarded DFS the concession agreement in October of 2003. This award reflects a MAG of $40,000,000, which is $20,000,000 or 33.3 percent less in rent than the original concession agreement which had a MAG of $60,000,000. As noted above, San Francisco is recommending a 48.5 percent reduction in rent as compared to the 33.3. percent reduction in rent at the Honolulu Airport.

According to Ms. Rachel Miller of LAX, the terms of the LAX rent reduction program for DFS are as follows: (1) DFS is required to pay to LAX the full MAG of $37,000,000 in 2002, (2) the MAG is suspended for

calendar year 2003 through 2005, and (3) DFS will pay the LAX rent based on a percentage of gross revenues, 23 percent in 2003, 27 percent in 2004, and between 28 and 39 percent in 2005 depending on sales.[8] Ms. Miller states that the final rent reduction for DFS will not be known until actual gross revenues through 2005 are known.

3. Attachment IV to this report, also provided by Mr. Pfeiffer provides additional information regarding what the Airport believes would occur should the Board of Supervisors not provide the DFS with an approximately $11,397,025 or 48.5 percent rent reduction for calendar year 2003. Mr. Pfeiffer advises that:

> "If the Board of Supervisors fails to grant relief from the stipulated $23,500,000 [$23,490,000] *duty free sales* minimum annual guarantee, the effective concession rent in 2003 would exceed 60% of sales. A duty free concession rent at this level would be unprecedented in the duty free industry and would represent what Duty Free Stores (DFS) has stated would be untenable burden for them to handle, as it would be for any other duty free concessionaire."

According to Mr. Pfeiffer, and as described in Attachment V to this report, "DFS has indicated that the maximum rent it could pay as a percentage of gross revenues is 31 percent."

4. However, the Budget Analyst notes that the proposed Amendment would reduce duty-free rent to 25 percent of gross revenues retroactively from April 1, 2003 to December 31, 2003 if duty-free gross revenue are $3,000,000 or less, which is 6 percent less than the 31 percent that DFS has indicated to the Airport that DFS could pay. Based on the gross revenue data provided by the Airport as shown in Attachment II, under the proposed lease Amendment, DFS would retroactively pay 25 percent of gross revenues in April, May and June of 2003, which is 6 percent less than the 31 percent that DFS has indicated it could pay. Further, the data provided by the Airport in Attachment II shows that the

[8] Ms. Miller advises that DFS would be required in 2005 to pay 28 percent for gross revenues of $75,000,000 or less, 32.5 percent for $75,000,001 to $100,000,000, 36.5 percent for $100,000,001to-$125,000,000, and 39 percent for $125,000,001 and above.

duty-free stores have actually paid in excess of 31 percent of gross revenues rent. For example, between December 2000 and August 1, 2001, rent paid by DFS for the duty-free stores averaged 45 percent of gross revenues.

Therefore, the Budget Analyst recommends that the proposed rent schedule for January 1, 2003 to December 31, 2003 be revised for the period of April 1, 2003 to December 31, 2003 from 25 percent of gross revenues up to $3,000,000 to 31 percent of gross revenues up to $3,000,000, an increase of 6 percent of gross revenues. As shown in Attachment II, if DFS paid 31 percent of all gross revenues the total rent payable for 2003 would be $12,560,590, or $467,615 more than the $12,092,975 proposed rent payable in 2003 under the subject lease amendment.

5. The Budget Analyst requested an explanation of why the Airport is requesting Board of Supervisors retroactive approval of the proposed lease amendment approximately 11 months after the proposed effective date, January 1, 2003. Attachment III to this report, provided by Mr. David Pfeiffer of the Airport states the following:

> "DFS first approached the Airport for MAG relief in January 2003; however, staff felt it important to verify that the passenger downturn adversely impacted DFS sales. Additionally, staff waited for HNL (Honolulu International Airport) and LAX (Los Angeles International Airport) to finish its relief package for DFS, as well as verifying the final impact of the Iraq War and SARS (Severe Acute Respiratory Syndrome) before finishing negotiations with DFS. They were just completed and approved by the Airport Commission last month."

However, as shown in Attachment II, the Airport has allowed DFS to pay the reduced rent since January of 2003, without first obtaining approval of the Board of Supervisors. The Budget Analyst further notes that this retroactive request for an approximately $11,397,025 or 48.5 percent reduction limits the options of the Board of Supervisors because DFS has benefited from a 48.5 percent rent reduction for the past 11 months without

first obtaining approval from the Board of Supervisors for such a rent reduction.

6. As previously stated, the proposed Amendment requires that the duty-free MAG be reinstated on January 1, 2004 or the 1st day of the consecutive month of the monthly Gross Revenues on duty free sales equals or exceeds $5,000,000 per month, whichever occurs first. Based on the Airport's projections shown in Attachment II to this report, the duty-free MAG would be reinstated January 1, 2004. The proposed Amendment also provides that once the duty-free MAG is reinstated, the duty-free MAG cannot be adjusted or suspended.

However, the proposed Amendment states that "on or before January 1, 2004, the Director would review DFS duty free Gross Revenues for calendar year 2003 to determine if a further suspension of the DFS MAG is warranted." According to Ms. Adrienne Go of the City Attorney's Office, suspending the duty-free MAG beyond December 31, 2003 would require approval from the Board of Supervisors regardless of the determination of the Director of the Airport. Ms. Go advises that while such approval of the Board of Supervisors is not explicitly stated in the proposed Amendment, such approval is required by the City's Charter.

7. As previously stated and as detailed in Attachment V, "DFS has indicated that the maximum rent it could pay as a percentage of gross revenues is 31 percent." Based on the Budget Analyst's analysis of the data provided by the Airport in Attachment II, in order for DFS to pay the duty-free MAG in 2004, the duty free stores would need to increase monthly gross revenues from the average of $3,292,497 in 2003 to a monthly average of $6,314,516 or by 91.8 percent. The Budget Analyst questions why the Airport believes that DFS could pay the duty-free MAG in 2004. In response to this point, as shown in Attachment V to this report, provided by Ms. Maitland, the Ms. Maitland states that:

> "In the event circumstances change in 2004, the Airport believes it is more fiscally responsible to contain the rent relief to the current Lease Year. For example, if there is an increase in passengers in the

2004 Lease Year, which could have a positive effect on duty free gross revenues, the Airport would not want to be committed to a rent reduction negotiated in 2003."

Based on this response, the Budget Analyst believes that the Airport will likely make another retroactive request for the Board of Supervisors to retroactively provide for a duty-free MAG suspension for calendar year 2004. Therefore, the Budget Analyst recommends that the proposed resolution be amended to specifically disallow any further retroactive requests of the Board of Supervisors for a MAG reduction or suspension after January 1, 2004 in order to prevent the Airport from taking such action prior to receiving Board of Supervisors approval.

8. In summary, the proposed resolution would retroactively reduce DFS's duty-free rent payable to the Airport from $23,490,000 to $12,092,975, (see Comment No. 1) a reduction of $11,397,025 or 48.5 percent in calendar year 2003. However, according to DFS's statements to the Airport, the DFS could pay a rent of 31 percent of gross monthly revenues which would equal $12,560,590 or $467,615 more than the $12,092,975 currently proposed (see Comment No. 4). The proposed lease Amendment would also establish a new rent schedule from January 1, 2004 to May 1, 2010, which would retain the MAG of $23,490,00 and increase the percentage of annual gross revenues.

The Budget Analyst noted in Comment No. 5 above that the Airport has also allowed DFS to suspend the duty-free MAG payments and pay the reduced rents, which are the subject of the proposed lease Amendment since January of 2003, without first obtaining approval of the Board of Supervisors. Furthermore, as noted in Comment No. 7 above, based on the Airport's data provided to the Budget Analyst, the Budget Analyst believes that the Airport will likely request that the Board of Supervisors again retroactively provide for a duty-free MAG suspension for calendar year 2004. Therefore, the Budget Analyst makes the following recommendations.

Recommendations:

1. In accordance with Comment No. 4, direct the Airport to revise the rent schedule for April 1, 2003 through December 31, 2003 in the proposed Amendment from 25 percent of gross revenues up to $3,000,000 to 31 percent of gross revenues up to $3,000,000, which would result in additional rent of approximately $467,615 to the Airport.

2. In accordance with Comment No. 7, amend the proposed resolution to specifically disallow any further retroactive requests for a MAG reduction or suspension after January 1, 2004 until the Board of Supervisors approval is first granted.

3. Approval of the proposed resolution, as amended, is a policy matter for the Board of Supervisors.

	Sq.Ft.		DBE
DFS Group, LLP		55,422	
Altitunes (Amy Nye) [Formerly Esprit]	2,918		Yes
California Wine Country Gourmet	1,583		
Cool Tees@sfo.fun (A) (temporarily closed)	350		
Cool Tees@sfo.fun (G)	300		
DFS Galleria (A)	8,850		
DFS Galleria (G)	13,046		
DFS Satellite (A)	1,670		
DFS Satellite (G)	1,455		
Pacific Outfitters (RDG) [Formerly Here to There]	970		Yes
Leather Report	1,746		
Mainspring Watches	500		
San Francisco Bay Traders (A)	1,464		
San Francisco Bay Traders (G)	1,762		
San Francisco Wine Gourmet	1,464		
SFO Treats (PGC Sublessee)	1,034		Yes
Soliton	1,267		
To Your Health (temporarily closed)	1,500		
Subleases:	13,543		
Pacific Gateway Concessions, LLC & LTD			Yes
Embardero Treats	*1,222*		
Pacific Gateway Gift & News (A)	*982*		
Pacific Gateway Gift & News (G)	*906*		
Pacific Gateway News (A) [Combining w/ SFO treats space]	*474*		
Pacific Gateway News (G)	*892*		
Pacific Gateway News (G)	*375*		
Kids City [Formerly US Sporting Style]	*1,027*		Yes
RDG Concessions			Yes
Pacific Outfitters	*709*		
SF [illegible]ime	*1,768*		
Sunset Shades	*500*		
Sephora			
Sephora (North Shoulder, ITB)	*2,190*		
Sephora (South Shoulder, ITB)	*2,198*		

Shaded cells represent tenants of the duty-free shop

Source: Airport
11/19/03

DFS Group, LLP

Tenant No.:	11083
Index Code:	AIROPRIT
SubOjbect:	37512

		Gross DUTY FREE Sales	Rent Owed	Rent Paid			
	December-00	$2,810,341.86	$1,351,278.06	$1,351,278.06			
	January-01	$3,783,611.20	$1,904,073.75	$1,904,073.75			
	February-01	$3,891,352.45	$1,904,073.75	$1,904,073.75			
	March-01	$4,172,066.11	$1,904,073.75	$1,904,073.75			
	April-01	$3,700,463.28	$1,904,073.75	$1,904,073.75			
	May-01	$5,041,485.73	$1,904,073.75	$1,904,073.75			
	June-01	$4,674,567.40	$1,904,073.75	$1,904,073.75			
	July-01	$4,213,685.40	$1,904,073.75	$1,904,073.75			
	August-01	$5,368,585.79	$1,904,073.75	$1,904,073.75			
	September-01	$3,196,868.77	$935,114.44	$935,114.44			
	October-01	$2,451,617.09	$462,904.27	$462,904.27			
	November-01	$2,393,742.97	$448,435.74	$448,435.74			
	December-01	$2,895,037.89	$573,759.47	$573,759.47			
	January-02	$2,525,730.26	$481,432.57	$481,432.57			
	February-02	$2,688,934.08	$522,233.52	$522,233.52			
	March-02	$3,072,838.25	$618,209.56	$618,209.56			
	April-02	$2,879,032.35	$863,709.71	$863,709.71			
	May-02	$3,682,267.22	$1,104,680.17	$1,104,680.17			
	June-02	$3,426,668.46	$1,028,000.54	$1,028,000.54			
	July-02	$3,345,290.48	$1,003,587.14	$1,003,587.14			
	August-02	$3,837,268.56	$1,151,180.57	$1,151,180.57			
	September-02	$3,677,001.66	$1,103,100.50	$1,103,100.50			
	October-02	$3,441,349.12	$1,066,818.23	$1,066,818.23			
	November-02	$3,391,977.07	$1,051,512.89	$1,051,512.89			
	December-02	$3,230,144.41	$1,001,344.76	$1,001,344.76			
			Rent due under existing lease agreement	Rent Paid	Rent payable under proposed amendment	Rent payable if at 31 percent of gross revenues	
	January-03	$3,249,317.77	$1,957,500.01	$1,007,288.51	$1,007,288.51	$1,007,288.51	
	Jan Bonus Pymt.			$312,500.00	$312,500.00	$312,500.00	
	February-03	$2,843,444.65	$1,957,500.01	$881,467.84	$881,467.84	$881,467.84	
	March-03	$3,021,637.19	$1,957,500.01	$936,707.53	$936,707.53	$936,707.53	
	April-03	$2,236,853.13	$1,957,500.01	$559,213.29	$559,213.29	$693,424.47	
	May-03	$2,641,752.79	$1,957,500.01	$660,438.20	$660,438.20	$818,943.36	
	June-03	$2,914,979.61	$1,957,500.01	$728,744.90	$728,744.90	$903,643.68	
	July-03	$3,596,146.55	$1,957,500.01	$1,114,805.43	$1,114,805.43	$1,114,805.43	
	August-03	$3,909,456.71	$1,957,500.01	$1,211,931.58	$1,211,931.58	$1,211,931.58	
	September-03	$3,714,160.23	$1,957,500.01	$1,151,389.67	$1,151,389.67	$1,151,389.67	
	October-03	$3,893,600.00	$1,957,500.01		**$1,207,016.00**	$1,207,016.00	
	November-03	***$3,694,967.00***	$1,957,500.01		***$1,145,439.77***	$1,145,439.77	
	December-03	***$3,793,652.00***	$1,957,500.01		***$1,176,032.12***	$1,176,032.12	
	Total for 2003		$23,490,000.12		$12,092,974.84	$12,560,589.97	###
				rent reduction	$11,397,025.28		

Bolded text is unauditted revenue
Italicized text indicates forecasted figures

Source: Airport, December 4, 2003

SFO

San Francisco International Airport

P.O. Box 8097
San Francisco, CA 94128
Tel 650.821.5000
Fax 650.821.5005
www.flysfo.com

October 8, 2003

Elaine Forbes
Budget Analyst's Office
City & County of San Francisco
City Hall, Room 263
San Francisco, CA 94102

Re: Amendment No. 3 to DFS Group, L.P.'s Post- Security Master Retail/Duty Free Lease No. 99-0035

Dear Elaine:

Although the DFS MAG was reinstated January 1, 2003, they have been unable to pay it and instead have been paying percentage rent. The duty Free MAG for calendar year January 1 through December 31, 2003 is $23.5 million.

DFS business at SFO is unlike any other tenant. It is both direct operator and a master tenant. Its lease covers 29 different facilities, yet 90% of the MAG is allocated to the duty free operations. The duty paid facilities are all subleased to DBE tenants. The duty free operations are completely tied to international passenger traffic, which has been severely and disproportionately effected by SARS and the Iraq war.

DFS sought and was given economic relief at Honolulu and Los Angeles International Airports. The presence of a well run duty free operations is a valued service to international passengers and is generally considered an important feature at major international airports.

In order to avoid the potential of empty duty free retail space during the rebid process, as well as the loss of business to DBE sublessees if DFS were to shut down due to their inability to pay their MAG, we have negotiated a 12 month interim program to continue the MAG suspension, but also require additional payments beyond the percentage rent if sales in each month increase by at least 10% over the previous year.

The DBE subleases offer many of the most basic necessities of the traveling public, such as newspapers, magazines, aspirins and band-aids. Disruption of those subleases would have an adverse impact on the traveling public.

Elaine Forbes
October 8, 2003
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For calendar year 2003, staff forecast that this proposed plan would result in rents to the Airport in the range of approximately $11.4 to $14.6 million. By comparison, in Honolulu the $60 million MAG was recently dropped to $40 million and could go as low as $34 million if sales there do not improve. In Los Angeles the DFS lease was also significantly restructed, eliminating the MAG of $37 million for the years 2003 until the end of the current lease in May 2005. The percentage rent there was set 23% in 2003, 27% in 2004, and a tiered rate commencing at 28%.

DFS first approached the Airport for MAG relief in January 2003; however, staff felt it important to verify that the passenger downturn adversely impacted DFS' sales. Additionally, staff waited for HNL and LAX to finish its relief package for DFS, as well as verifying the final impact of the Iraq War and SARS before finishing negotiations with DFS. They were just completed and approved by the Airport Commission last month.

Please contact me with any other questions on this amendment.

Sincerely,

David W. Pfeiffer
Associate Deputy Director
Revenue Development

San Francisco International Airport

October 30, 2003

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Mr. Harvey Rose
Office of the Budget Analyst
1390 Market Street, Suite 1025
San Francisco, CA 94102

Subject: Amendment No. 3 to the DFS Group, L.P. Post-Security Master Retail/Duty Free Concession in the New International Terminal Building Lease No. 99-0035 at San Francisco International Airport

Dear Mr. Rose:

The combined impact of the residual effects of September 11,2001 and the more immediate effects of the war in Iraq and the SARS outbreak will hold *duty free sales* at San Francisco International Airport to an estimated $38,900,00 based upon current trend. If the Board of Supervisors fails to grant relief from the stipulated $23,500,000 *duty free sales* minimum annual guarantee, the effective concession rent in 2003 would exceed 60% of sales. A duty free concession rent at this level would be unprecedented in the duty free industry and would represent what Duty Free Stores (DFS) has stated would be an untenable burden for them to handle, as it would be for any other duty free concessionaire. They have also sought and received relief at Los Angeles World Airports (LAX) and Honolulu International Airport (HNL) due to the same issues.

As noted in the earlier letter of October 8th, LAX and HNL, two Pacific Rim airports where DFS operates, provided extensive, multi-year rent relief to DFs. Those airports recognized that the international market has fundamentally changed and that extensive relief was warranted and required to keep Duty Free concession in DFS in operation.

In discussions with DFS they have stated that failing to provide appropriate relief from this unsustainable concession rent burden would have both immediate and long-term consequences for the City and County of San Francisco, San Francisco International Airport, the Airport's patrons and of course, DFS. According to DFS, failure to provide relief would at minimum, result in the following:

- DFS would be unable to continue to maintain the high level of customer service and product assortment that patrons of San Francisco International Airport, a major Asian gateway, both require and deserve. Store presentations and appearance would also suffer since investment in store inventory, infrastructure and facilities could not be maintained at their present high levels.

- DFS management and employees, many of whom have long-tenure given DFS's long service as the duty free concessionaire at San Francisco International Airport, would face immediate lay-offs, with little or no prospect of recall. DFS

Mr. Harvey Rose
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has its worldwide headquarters in San Francisco and employs over 300 people in its downtown offices and over 100 staff at SFO.

- DFS may be forced to resign from this concession, forcing the City and Airport to search for a new operator during a period when a Request for Proposal is likely to result in offers that fall below those that would be in place with DFS.

If approved by the Board of Supervisors, the difference that would be paid by DFS under this relief package between the MAG ($23,400,000) and the projected rent collected under the relief ($11,938,173) would be $11,461,827. This could be decreased if sales warrant additional lump sum payments of $312,500 for sales in November and December.

The world events that have fundamentally altered 2003 travel patterns at San Francisco International Airport require this relief if the foundation of DFS is to remain sound. DFS believes this relief is warranted, appropriate and necessary to assure that they can continue to provide the current high level of duty free facilities, product and services currently offered to Airport patrons. The relief package was carefully considered and approved by the Airport Commission and is substantially less far reaching than the relief given by LAX and HNL.

Very truly yours,

David W. Pfeiffer
Associate Deputy Director
Revenue Development

cc: John L. Martin
Leo Fermin

TO: Harvey Rose, Budget Analyst
FROM: Patrica Maitland, Airport
DATE: Wednesday, November 19, 2003

RE: Responses to Budget Analyst Questions

1. If DFS cannot pay the duty-free MAG in the current calendar year, why does the Airport believe DFS will be able to pay the duty-free MAG effective January 1, 2004?

In the event circumstances change in 2004, the Airport believes it is more fiscally responsible to contain the rent relief to the current Lease Year . For example, if there is an increase in passengers in the 2004 Lease Year, which could have a positive effect on duty free gross revenues, the Airport would not want to be committed to a rent reduction negotiated in 2003.

2. What is a reasonable maximum percent of gross revenues for a duty-free concession lease?

DFS has indicated that the maximum rent it could pay as a percentage of gross revenues is 31%.

3. The original lease shows a total of 52,000 square feet with 27 locations, and an amendment shows 57,353 in 29 locations, but your spreadsheet shows 55,422 in 29 locations. What happened?

The original lease Exhibit A lists 27 retail facilities for a total of 53,451 square feet plus two "Additional Facilities" comprised of the Unisex Apparel Store (Esprit, CN10) and the Apothecary Store (To Your Health, CS70) for 2918 square feet and 1648 square feet respectively, for a total of 29 locations and 58,017 square feet.

Exhibit A of the Lease was drafted approximately 2 years before the actual build out of the premises. The following changes that have occurred over the course of the lease term, account for 2360 sq.ft. of space. The 235 sq.ft. delta is the result of minor design and construction changes that occurred during actual build out and were not recorded in CAD drawings.

Bay Traders is shown on the lease as 2497 sq.ft., actual build out size was 1464 sq.ft. for a difference of 1033 sq. ft.
Mainspring is shown on the lease as 1267 sq.ft., actual build out size was 500 sq.ft. for a difference of 767 sq. ft.
AW60 & AW70 combined premises and show on the lease as 982 sq.ft. and 1034 sq.ft. for a total of 2016 sq.ft., actual build out size is 1456 sq.ft. for a difference of 560 sq.ft.

Item 15 - File 03-1828

Departments: Mayor's Office of Public Finance
Airport Commission

Item: Resolution approving the issuance of up to $225,000,000 in additional aggregate principal amount of Airport Second Series Revenue Refunding Bonds for the purpose of refinancing the 1991 Master Bond Resolution[1] Airport Revenue Bonds and Subordinate Airport Revenue Bonds of the Airport Commission; Approving the issuance of Airport Second Series Variable Rate Revenue Bonds for the purpose of financing or refinancing certain capital improvements at the Airport, including refunding outstanding 1991 Master Bond Resolution Airport Revenue Bonds and Subordinate Airport Revenue Bonds of the Airport Commission; Approving the maximum interest rates thereon; Approving the forms of certain documents relating to the Airport Revenue Refunding Bonds; Approving XL Capital Assurance Inc. as a provider of bond insurance and the related reserve fund Surety Bonds and the forms of certain documents relating thereto.

Amount: Airport Second Series Revenue Refunding Bond not to exceed $225,000,000

Source of Funds: San Francisco International Airport Second Series Revenue Refunding Bonds

Description: The proposed resolution would authorize the Airport to take three actions:

- Issuance of an amount not to exceed $225,000,000 in Airport Second Series Revenue Refunding Bonds to refund 1991 Master Bond Resolution Airport Revenue Bonds and Subordinate Airport Revenue Bonds,
- Issuance of Airport Second Series Variable Rate Revenue Bonds to refund a portion, up to $225,000,000, of the estimated $4,270,600,000 in

[1] "1991 Master Bond Resolution", the formal title of a series of bond issuances, refers to the 1991 Airport Revenue Bond Resolution for financing the Master Plan approved by the Board of Supervisors in 1991.

outstanding 1991 Master Bond Resolution Airport Revenue Bonds and Subordinate Airport Revenue (Refunding) Bonds, and

- Approve XL Capital Assurance Inc. as a provider of bond insurance and reserve fund surety policies to the Airport for the future issuance of any 1991 Master Bond Resolution Airport Revenue Bonds and Subordinate Airport Revenue (Refunding) Bonds including the pending issuance of $303,000,000 in Airport Revenue Refunding Bonds previously approved by the Board of Supervisors.

The Board of Supervisors previously authorized the issuance of $6,537,165,000 in 1991 Master Bond Resolution Airport Revenue Bonds ($4,181,165,000) and Subordinate Airport Revenue (Refunding) Bonds ($2,356,000,000). To date the Airport has issued a total a principal amount of $5,124,385,000 of the $6,537,165,000 authorization, of which a principal amount of approximately $4,270,600,000 remains outstanding. These 1991 Master Bond Resolution Airport Revenue Bonds and Subordinate Airport Revenue (Refunding) Bonds were issued to initially finance, or subsequently refund at lower interest rates, various capital improvements at the Airport, including the new International Terminal, the Airport BART Station, and various other infrastructure expansion and improvement projects. These revenue bonds are not an obligation of the City's General Fund, and are fully redeemed by Airport revenues.

Comments:

<u>Airport Second Series Revenue Refunding Bonds in an amount not to exceed $225,000,000</u>

1. The proposed resolution authorizes the Airport to issue an amount not to exceed $225,000,000 in Airport Second Series Revenue Refunding Bonds to refund 1991 Master Bond Resolution Airport Revenue Bonds and Subordinate Airport Revenue Bonds. The proposed Airport Second Series Revenue Refunding Bonds would refund up to $225,000,000 in outstanding bonds for the 1991 Master Bond Resolution Airport Revenue Bonds and Subordinate Airport Revenue Bonds. Mr. Kevin Kone of the Airport reports that issuance of the proposed Airport Second Series Revenue Refunding Bonds, in an amount to refund

up to $225,000,000 would result in total estimated net present value savings in aggregate debt service of $12,213,238, as shown on the third page of Attachment I, a memo provided by the Airport's Financial Advisors, Public Financial Management, Inc., and as shown in Attachment II, provided by the Airport.

2. According to Mr. Kone, the Airport Second Series Revenue Refunding Bond proceeds of up to $225,000,000 will be used to pay (a) the underwriter's fee, (b) other costs of bond issuance, (c) the bond insurance premium, and (d) the required debt service reserve fund, in addition to refunding the 1991 Master Bond Resolution Airport Revenue Bonds and Subordinate Airport Revenue Bonds, as shown in Attachment II, provided by the Airport, and summarized in the table below:

Sources:	
Bond Par Amount	$224,675,000
Other Sources of Funds:	
Bond Funds[2]	3,054,783
Total Sources:	**$227,729,783**
Uses:	
Refunding Escrow	$222,181,898
Cost of Issuance	224,675
Underwriter's Discount	1,123,375
Insurance	4,195,646
Additional Proceeds	4,189
Total Uses:	**$227,729,783**

According to Mr. Kone, the refunding escrow of $222,181,898 plus anticipated interest earnings of $498,417 over three months prior to the call date of May 1, 2005, totals $222,680,315, which will provide sufficient funds to call 1991 Master Bond Resolution Airport Revenue Bonds at a net amount of $214,025,000 on May 1, 2005. The surplus of $8,655,315 ($222,181,898 plus 498,417 less $214,025,000) will be used to pay the

[2] According to Mr. Kone, other sources of bond funds refers to the debt service on the original 1991 Airport Resolution bonds being refunded that is to be paid between the estimated date of the sale of the refunding bonds and the date that the original bonds can be called.

following:

Estimated interest due on the $214,025,000 of the 1991 Bonds:	$6,100,000
Estimated Fee for redemption on bond premium:	2,500,000
Total:	**$8,600,000**

3. Mr. Kone also states that due to ever-changing market conditions, it is not possible at this time to be certain of the exact sale date for the proposed refunding bonds. However, Mr. Kone estimates that the Airport may sell up to the entire $225,000,000 million of Airport Second Series Revenue Refunding Bonds by May 1, 2005.

4. According to Mr. Kone, the existing 1991 Master Bond Resolution Airport Revenue Bonds and Subordinate Airport Revenue Bonds have interest rates between 3.76 and 7.15 percent, and were issued with terms ranging between 11 and 30 years, with final payment dates in 2032. Mr. Kone estimates that interest rates for the proposed Airport Second Series Revenue Refunding Bonds will be 4.6 percent. Mr. Kone adds that the rates would need to be below 5.5 percent in order to achieve the previously cited estimated $12,213,238 in net present value savings for the eligible bonds that are callable. Mr. Kone states that the Refunding Bonds would only be issued if a savings of at least the $12,213,238 would be achieved.

Therefore, the Budget Analyst recommends that the proposed resolution be amended by adding the following provision:

> "Further provided, that issuance of the Airport Second Series Revenue Refunding Bonds would result in net debt service savings to the Airport on a present value basis of at least $12,213,238."

Airport Second Series Variable Rate Revenue Bonds

5. The proposed resolution also approves the Airport's Eleventh Supplemental Resolution which provides for the issuance of the Airport Second Series Variable Rate Revenue Bonds at a variable interest rate instead of a fixed rate. This authorization would be applicable to the proposed $225,000,000 in Revenue Refunding Bonds and all previously authorized, but unissued 1991 Master Bond Resolution Airport Revenue Bonds and Subordinate Airport Revenue (Refunding) Bonds, including the pending issuance of $303,000,000 in Refunding Bonds previously authorized by the Board of Supervisors and the requested authorization of $225,000,000 in additional Refunding Bonds. Attachment III, a memo provided by the Airport's Financial Advisors, Public Financial Management Inc., explains that issuing variable rate debt would provide a lower borrowing cost to the Airport, would increase the Airport's bond flexibility, and would increase asset-liability matching[3]. Attachment III states that the average variable interest rate of return for a 14-year term is up to 3.26 percent, compared with the average fixed rate of return for 30 years of up to 6.10 percent. According to Public Financial Management Inc., the weighted average interest rate of the Airport's $4,270,600,000 in outstanding fixed interest rate debt is 5.20 percent. Attachment III also compares the Airport's debt service under a fixed interest rate to the debt service under a variable interest rate. As shown in Attachment III, the schedule, prepared by Public Financial Management Inc., indicates that a variable interest rate on the pending issuance of $303,000,000 in previously authorized refunding bonds could provide the Airport with an estimated present value savings of $39,097,499, which is $29,527,724, or 308.6 percent more than the $9,569,775 in estimated present value savings under the fixed interest rate.

[3] According to Mr. Kone, asset-liability matching refers to a situation where, if the Airport converted a portion of its liabilities to variable rates, the Airport could match its debt service payments to the interest rates earned on its debt service reserves, or "assets". Therefore, if variable rates increase and debt service increases, investment earnings will also increase to offset the higher debt service costs.

6. According to Ms. Monique Moyer of the Mayor's Office of Public Finance, in cases such as the Airport Second Series Variable Rate Revenue Bonds, variable interest rates can provide more net present value savings to the Airport than would a fixed interest rate. In Attachment IV, a memo provided by Ms. Moyer, Ms. Moyer states that she supports the Airport's proposed debt restructuring with a variable interest rate based on "(1) the economic necessity to address financial stress in the near term, (2) the pressure from rating agencies, bond insurers and bondholders on the City to manage its way through this economic cycle, and (3) the performance of the City's own variable rate portfolio and the short-term portfolios of the DeYoung Museum, California Academy of Sciences and the San Francisco Ballet," all of which Ms. Moyer monitors.

XL Capital Assurance, Inc.

7. Approval of XL Capital Assurance Inc., as a provider of bond insurance and surety policies to the Airport, would authorize the Airport to insure previously authorized refunding revenue bonds in the amount of $303,000,000 and any future issuance of authorized 1991 Master Bond Resolution Airport Revenue Bonds and Subordinate Airport Revenue (Refunding) Bonds. According to Mr. Kone, bond insurance allows the Airport to achieve the lowest interest rates in the market because buyers are then guaranteed that bonds will be fully redeemed. Attachment V, a memo provided by another outside financial advisor of the Airport, Backstrom, McCarley, Berry and Co., explains that the Airport needs to secure bond insurance in order to reduce the overall borrowing costs to the Airport. According to Mr. Kone, the cost of the bond insurance is $2,600,000 for the pending issuance of $303,000,000 in refunding bonds. Mr. Kone advises that the estimated $39,097,499 in savings by issuing Airport Second Series Variable Rate Revenue Bonds including the estimated amount of $303,000,000 to refund the 1991 Master Bond Resolution Airport Revenue Bonds and Subordinate Airport Revenue Bonds is net of the $2,600,000 costs of bond insurance. Mr. Kone adds that XL Capital Assurance, Inc. was selected by an Request for Bid process. Mr. Kone reports that XL Capital Assurance, Inc. submitted a bid of 87.5 basis points (0.875 percent of

the par amount of bonds to be insured), which provided the lowest cost to the Airport, as compared with a 145 basis points bid by Financial Guaranty Insurance Company (FGIC) and a 225 basis points bid by A. Financial Group Inc. (AMBAC).

Recommendations:

1. In accordance with Comment No. 4 above, amend the proposed resolution to require that issuance of up to $225,000,000 in Airport Second Series Revenue Refunding Bonds would result in net debt service savings to the Airport on a present value basis of at least $12,213,238.

2. Approve the proposed resolution as amended.

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PFM
Public Financial Management
Financial and Investment Advisors

November 19, 2003

Memorandum

To: Kevin Kone, *Assistant Deputy Director, San Francisco International Airport*

From: Peter W. Miller, *Managing Director*
Adam Aranda, *Consultant*
Reid Taradash, *Consultant*

Re: Revenue Refunding Bond Program

At the request of the San Francisco International Airport (the "Airport"), Public Financial Management, Inc. ("PFM") has provided a summary of the Revenue Refunding Bond Program (the "Program"). The Program is part of a greater overall strategy to reduce costs and generate savings wherever possible. The Airport's approach to the refunding Program has been to aggressively pursue savings by taking advantage of favorable, lower market conditions to better meet its cash flow needs. This memorandum provides an overview of the Airport's outstanding debt as well as the refundings pursued within the Program. Also explored is the status of the currently outstanding debt and the Airport's ability to pursue refundings for savings in the future.

Debt Overview

Since 1992, beginning with the Second Supplemental Resolution, the Airport has issued over $5.1 billion in long-term fixed rate debt beginning with Issue 1 in 1992. Since then, the Airport has issued 28 additional bond issues, most recently Issues 29A and 29B, which closed in early 2003. Of this total, $2.51 billion has been issued as tax-exempt (Non-AMT), $2.48 billion has been issued as tax-exempt but subject to the Alternative Minimum Tax (AMT), and $131.5 million, Issue 13A ,has been issued as taxable (See Attachment 1 for a list of all bonds issued and currently outstanding).

Total Bonds Issued (Second Series Revenue Bonds)		
	Original Par Amount	% of Total Debt Issued
Tax-exempt (Non-AMT)	$2,509,155,000	48.96%
AMT	2,483,730,000	48.47%
Taxable	131,500,000	2.57%
Total	**$5,124,385,000**	**100.00%**

New Money Financings

Under the Airport's Near Term Master Plan (NTMP), 20 issues totaling $3.9 billion were issued as new money financings. Projects under the NTMP include the new International Terminal, the Airport BART Station, rental car facility, employee parking garage and numerous other infrastructure expansion and improvement projects.

Refunding Financings
Consistent with the Airport's strategy of aggressively pursuing refunding opportunities, the Airport has issued a total of $1.2 billion of refunding bonds since 1992. In the years 1992–1995, the Airport issued a total par amount of $528.4 million to fully refund all of the Airport's outstanding First Series Revenue Bonds. Since 1998, the Airport has issued an additional $676.3 million to refund prior Second Series Revenue Bonds. Since 1998, the refunding strategy has generated for the Airport total present value savings of $61.7 million. The Airport also decided to structure these refundings in a manner that would push savings to the earlier years, thereby generating significant upfront savings and furthering its goal of lowering overall costs per year (See Attachment II for total savings per year).

Refunding Par and NPV Savings (Since 1998 Only)			
Date	Issue Number	Refunding Par	NPV Savings
October 1998	20	$268.0 Million	$22.9 Million
June 2001	27	$154.2 Million	$8.2 Million
February 2002	28	$97.2 Million	$11.0 Million
February 2003	29	$157.0 Million	$19.6 Million
Total		**$676.3 Million**	**$61.7 Million**

Currently Outstanding Debt Portfolio
At present, the Airport has nearly $4.3 billion in outstanding debt. Of this amount, over 54%, or $2.3 billion is subject to AMT. An additional 42.6%, or $1.8 billion is Non-AMT while the remaining 2.7%, or $113 million is taxable. Of the entire $4.3 billion outstanding, only $912 million is eligible for an advance refunding (a refunding in which there is greater than 90 days between the delivery date of the new bonds and the call date of the prior bonds. The remaining debt is either 1.) a prior advance refunding (therefore not eligible for an additional advance refunding), 2.) non-callable maturities or 3.) AMT. Under Federal tax law, AMT bonds can not be advance refunded. The chart below illustrates the Airport's current debt service obligations by tax and refunding status.

Description	Outstanding Par	% Of Total
Tax Status		
AMT	$2,339,640,000	54.79%
Non-AMT	$1,817,760,000	42.56%
Taxable	$113,200,000	2.65%
Total	$4,270,600,000	100.00%
Refunding Status		
Advance Refundable	$806,155,000	18.88%
Advance Refundable (taxable)	$106,050,000	2.48%
Current/Forward Refundable	$2,721,895,000	63.73%
Non-Callable	$629,350,000	14.74%
Non-Callable (taxable)	$7,150,000	0.17%
Total	$4,270,600,000	100.00%

Source: Draft Preliminary Official Statement, Issue 30, San Francisco Airport

Advance Refunding Opportunities

As described above, the vast majority of the Airport's outstanding debt is not eligible for an advance refunding. Although interest rates are relatively low, the Airport sold issue 27 in 2001, which refunded the vast majority of the eligible advance refunding candidates. Hence, few advance refundable candidates remain, providing the Airport minimal opportunity for significant savings from advance refunding.

Current Refunding Opportunities

A current refunding is defined as when there are less than 90 days between the delivery of the new bonds and the call date of the prior bonds. The Airport has a significant volume of debt – over $2.7 billion ($988.7 million of which will be callable in 2004, 2005 and 2006) – that can be refinanced as a current refunding. The Airport has achieved over $30.6 million in net present value savings in the past two years with current refundings. The Airport could continue its pattern of annual current refundings with the expectation of potential future savings.

Issue 30 and Issue 31

To take advantage of the relatively low market rates for the potential of significant savings, the Airport is currently in the process of pursuing another series of refunding bonds to be delivered in early 2004. In May 2004, $264.2 million of bonds become callable. To take advantage of low fixed rates, the Airport will pursue Issue 30 as an approximate $30 million fixed rate debt restructuring of prior Non-AMT bonds. In addition, the Airport is pursuing Issue 31 as $234.2 million of variable Auction Rate Securities to take advantage of historically low variable rates. The Bond Market Association ("BMA") index, a widely accepted measure of short term rates, is currently at 1.12%. The refunding should be able to generate significant savings and assist the Airport in reducing costs.

Issue 30 and Issue 31 Proposed Savings			
	Proposed Issue 30*	Proposed Issue 31	Total
Gross Savings	-$3,522,048	$46,031,576	$42,509,527
Present Value Savings	-$1,412,572	$40,510,071	$39,097,498
% of Par	-4.7%	18.4%	15.6%

* Issue 30 is a debt restructuring that generates upfront savings of $10.3 million in 2005 and $9.0 million in 2006.

2006 Proposed Refunding

At the request of the Airport, PFM has also evaluated potential refunding opportunities in the future. Only $194.8 million of bonds become callable in May 2005, with minimal savings. However, there are $529.7 million of bonds becoming callable in May, 2006. This presents the Airport the best opportunity to achieve savings in the near future. At current fixed rates assuming a 3% savings threshold, roughly $225 million of bonds produce savings of approximately $12 million in present value savings, which is 5.7% of par.

Proposed 2006 Refunding			
	AMT	Non-AMT	Total
Gross Savings	$13,775,171	$3,588,260	$17,343,431
Present Value Savings	$9,623,698	$2,589,540	$12,213,238
% of Par	5.7%	5.7%	5.7%

Given the large amount of debt within the Airport's outstanding debt portfolio, the Airport should continue to aggressively pursue refunding opportunities for potential savings in the future. In a current environment of expected increasing fixed rates, the Airport should also continue to evaluate alternatives to fixed rate bonds in achieving this goal. As always, PFM is available in assisting the Airport in seeking out and evaluating future alternatives. Please do not hesitate to call us at (415) 982-5544 with any questions.

Attachment

San Francisco International Airport
Total Debt Issued: Near Term Master Plan 1992-2003
November 19, 2003

Dated Date	Series	Refunded*	Purpose	Original Principal Amount	Outstanding Principal Amount
3/1/1992	Issue 1 (Non-AMT)	*	Refund Series A and C	$222,620,000	0
3/1/1993	Issue 2 (Non-AMT)	*	Refund Series D	107,370,000	0
2/1/1993	Issue 3 (AMT)	*	Refund Series E	92,110,000	0
2/1/1993	Issue 4 (Non-AMT)	*	Refund Series B	80,900,000	0
5/1/1994	Issue 5 (AMT)		Near Term Master Plan	90,000,000	79,525,000
11/1/1994	Issue 6 (AMT)		Near Term Master Plan	125,000,000	111,425,000
4/1/1995	Issue 7A (Non-AMT)		Refund Series A (Superbay Hangar)	21,600,000	18,865,000
4/1/1995	Issue 7B (AMT)		Refund Series A (Superbay Hangar)	3,800,000	3,800,000
8/1/1995	Issue 8A (AMT)		Near Term Master Plan	60,000,000	55,450,000
8/1/1995	Issue 8B (Non-AMT)	*	Near Term Master Plan	40,000,000	1,525,000
11/1/1995	Issue 9A (AMT)		Near Term Master Plan	170,000,000	170,000,000
11/1/1995	Issue 9B (Non-AMT)	*	Near Term Master Plan	80,000,000	32,730,000
3/1/1996	Issue 10A (AMT)		Near Term Master Plan	175,000,000	175,000,000
3/1/1996	Issue 10B (Non-AMT)	*	Near Term Master Plan	25,000,000	23,450,000
6/1/1996	Issue 11 (Non-AMT)	*	Master Plan (Noise Reduction)	82,300,000	3,350,000
10/1/1996	Issue 12A (AMT)		Near Term Master Plan	165,000,000	165,000,000
10/1/1996	Issue 12B (Non-AMT)	*	Near Term Master Plan	110,000,000	34,345,000
11/1/1996	Issue 13A (Taxable)	*	Rental Car Facility, Employee Parking Garage,	131,500,000	113,200,000
11/1/1996	Issue 13B (AMT)		Rental Car Facility, Employee Parking Garage,	61,200,000	61,200,000
11/1/1996	Issue 14 (AMT)		Near Term Master Plan	57,300,000	57,300,000
1/1/1998	Issue 15A (AMT)		Near Term Master Plan/ Infrastructure Projec	263,355,000	254,515,000
1/1/1998	Issue 15B (Non-AMT)		Near Term Master Plan/ Infrastructure Projec	236,645,000	228,700,000
4/1/1998	Issue 16A (AMT)		Near Term Master Plan	133,000,000	130,745,000
4/1/1998	Issue 16B (Non-AMT)	*	Near Term Master Plan	82,000,000	73,850,000
4/1/1998	Issue 17 (Non-AMT)	*	Airport BART Station	35,000,000	31,520,000
7/1/1998	Issue 18A (AMT)		Near Term Master Plan	126,035,000	123,895,000
7/1/1998	Issue 18B (Non-AMT)	*	Near Term Master Plan	98,965,000	94,575,000
7/1/1998	Issue 19 (Non-AMT)	*	Airport BART Station	25,000,000	23,890,000
10/1/1998	Issue 20 (Non-AMT)		Refunding of Issues 1,2,3,4,8B,9B,12B	267,985,000	267,985,000
10/1/1998	Issue 21 (Non-AMT)		Near Term Master Plan	82,015,000	80,280,000
12/1/1998	Issue 22 (AMT)		Near Term Master Plan	125,000,000	122,800,000
5/1/1999	Issue 23A (AMT)		Near Term Master Plan	168,335,000	168,335,000
3/1/2000	Issue 23B (Non-AMT)		Near Term Master Plan	81,665,000	81,665,000
3/1/2000	Issue 24A (AMT)		Infrastructure Projects	104,360,000	102,835,000
3/1/2000	Issue 24B (Non-AMT)		Infrastructure Projects	28,140,000	27,730,000
3/1/2000	Issue 25 (AMT)		Near Term Master Plan	117,500,000	115,785,000
12/1/2000	Issue 26A (AMT)		Near Term Master Plan	87,230,000	85,955,000
12/1/2000	Issue 26B (Non-AMT)		Near Term Master Plan	150,955,000	148,755,000
6/15/2001	Issue 27A (AMT)		Refunding of Commercial Paper	210,995,000	207,565,000
6/15/2001	Issue 27B (Non-AMT)		Refunding of Issues 8B,9B,10B,11,12B,13A,16	277,530,000	273,435,000
2/15/2002	Issue 28A (AMT)		Refunding of Commercial Paper	116,640,000	116,640,000
2/15/2002	Issue 28B (Non-AMT)		Refunding of Commercial Paper	151,210,000	151,210,000
2/15/2002	Issue 28C (Non-AMT)		Refunding of Issue 1	97,150,000	94,795,000
2/5/2003	Issue 29A (AMT)		Refunding of Issue 3	31,870,000	31,870,000
2/5/2003	Issue 29B (Non-AMT)		Refunding of Issues 2, 4	125,105,000	125,105,000
			Total Debt Issued NTMP:	$5,124,385,000	$4,270,600,000

* Includes issues that have been partially refunded

Legend:	
Shaded =	Refunding Series

Prepared by Public Financial Management, Inc.

San Francisco International Airport
Refunding Savings
November 19, 2003

Issue 20 (Non-AMT) Period Ending	Savings	Issue 27B (Non-AMT) Period Ending	Savings	Issue 28C (Non-AMT) Period Ending	Savings	Issue 29A (AMT) Period Ending	Savings	Issue 29B (Non-AMT) Period Ending	Savings	Totals Period Ending	Savings
5/1/1999	8,234,612.19									5/1/1999	8,234,612.19
5/1/2000	3,605,955.00									5/1/2000	3,605,955.00
5/1/2001	3,608,735.00									5/1/2001	3,608,735.00
5/1/2002	3,626,915.00	5/1/2002	85,413.97	5/1/2002	423,531.18	5/1/2002	(22,836.09)	5/1/2002	(8,738.95)	5/1/2002	4,104,285.11
5/1/2003	2,182,935.00	5/1/2003	96,674.98	5/1/2003	9,860,340.00	5/1/2003	2,974,255.00	5/1/2003	7,507,081.26	5/1/2003	22,621,286.24
5/1/2004	3,772,935.00	5/1/2004	101,674.98	5/1/2004	135,980.00	5/1/2004	34,535.00	5/1/2004	7,000,873.76	5/1/2004	11,045,998.74
5/1/2005	3,035.00	5/1/2005	98,274.98	5/1/2005	135,130.00	5/1/2005	(45,712.50)	5/1/2005	4,819,245.00	5/1/2005	5,009,972.48
5/1/2006	4,195.00	5/1/2006	101,874.98	5/1/2006	116,820.00	5/1/2006	(66,342.50)	5/1/2006	(121,405.00)	5/1/2006	35,142.48
5/1/2007	685.00	5/1/2007	352,324.98	5/1/2007	117,625.00	5/1/2007	(57,687.50)	5/1/2007	(119,346.24)	5/1/2007	293,601.24
5/1/2008	1,555.00	5/1/2008	1,827,049.98	5/1/2008	117,665.00	5/1/2008	(62,087.50)	5/1/2008	(117,240.00)	5/1/2008	1,766,942.48
5/1/2009	1,757.50	5/1/2009	1,821,299.98	5/1/2009	138,105.00	5/1/2009	(49,187.50)	5/1/2009	(156,475.00)	5/1/2009	1,755,499.98
5/1/2010	3,305.00	5/1/2010	1,828,512.48	5/1/2010	141,730.00	5/1/2010	(69,282.50)	5/1/2010	(80,600.00)	5/1/2010	1,823,664.98
5/1/2011	2,685.00	5/1/2011	1,822,787.48	5/1/2011	140,415.00	5/1/2011	(92,467.50)	5/1/2011	(82,537.50)	5/1/2011	1,790,882.48
5/1/2012	2,420.00	5/1/2012	1,828,187.48	5/1/2012	112,525.00	5/1/2012	(75,947.50)	5/1/2012	912.50	5/1/2012	1,868,097.48
5/1/2013	4,695.00	5/1/2013	1,825,112.48	5/1/2013	61,475.00	5/1/2013	(60,882.50)	5/1/2013	102,175.00	5/1/2013	1,932,574.98
5/1/2014	432.50	5/1/2014	95,824.98			5/1/2014	(54,010.00)	5/1/2014	16,425.00	5/1/2014	58,672.48
5/1/2015	5,752.50	5/1/2015	98,549.98			5/1/2015	(49,065.00)	5/1/2015	(58,706.26)	5/1/2015	(3,468.78)
5/1/2016	4,055.00	5/1/2016	95,543.74			5/1/2016	(46,142.50)	5/1/2016	(49,062.50)	5/1/2016	4,393.74
5/1/2017	2,985.00	5/1/2017	100,412.48			5/1/2017	(45,242.50)	5/1/2017	(37,200.00)	5/1/2017	20,954.98
5/1/2018	2,050.00	5/1/2018	94,862.48			5/1/2018	(31,507.50)	5/1/2018	5,743.74	5/1/2018	71,148.72
5/1/2019	195.00	5/1/2019	95,593.74			5/1/2019	(20,820.00)	5/1/2019	41,843.74	5/1/2019	116,812.48
5/1/2020	802.50	5/1/2020	97,049.98							5/1/2020	97,852.48
5/1/2021	2,967.50	5/1/2021	100,574.98							5/1/2021	103,542.48
5/1/2022	4,317.50	5/1/2022	97,049.98							5/1/2022	101,367.48
5/1/2023	2,510.00	5/1/2023	93,262.48							5/1/2023	95,772.48
5/1/2024	4,162.50	5/1/2024	95,418.74							5/1/2024	99,581.24
5/1/2025	1,980.00	5/1/2025	96,106.24							5/1/2025	98,086.24
5/1/2026	5,055.00	5/1/2026	93,787.48							5/1/2026	98,842.48
Cash Flow Savings:	25,093,684.69		13,043,226.03		11,501,341.18		2,159,568.91		18,662,988.55		**70,460,809.36**
PV Savings:	22,934,373.66		8,184,780.64		10,927,642.02		2,286,072.26		17,339,223.81		**61,672,092.39**

Prepared by Public Financial Management, Inc.

San Francisco International Airport
2006 Refunding Savings
November 17, 2003

Proposed 2006 Refunding Savings* ($224.7 million par)			
Period Ending	AMT	Non-AMT	Total Savings
6/30/04			
6/30/05			
6/30/06	$636,496	$118,593	$755,089
6/30/07	770,982	229,374	1,000,356
6/30/08	770,507	232,069	1,002,576
6/30/09	772,735	231,650	1,004,385
6/30/10	769,828	232,293	1,002,120
6/30/11	774,411	230,302	1,004,713
6/30/12	774,224	232,199	1,006,422
6/30/13	771,622	229,823	1,001,445
6/30/14	772,782	229,493	1,002,274
6/30/15	769,754	229,865	999,619
6/30/16	774,722	232,064	1,006,786
6/30/17	771,627	229,930	1,001,556
6/30/18	769,962	231,346	1,001,307
6/30/19	770,228	234,692	1,004,919
6/30/20	772,446	230,654	1,003,100
6/30/21	770,256	233,917	1,004,173
6/30/22	769,842		769,842
6/30/23	772,749		772,749
6/30/24			
6/30/25			
6/30/26			
6/30/27			
6/30/28			
6/30/29			
6/30/30			
6/30/31			
6/30/32			
6/30/33			
Total	$13,755,171	$3,588,260	$17,343,431
Net PV Savings	$9,623,698	$2,589,540	$12,213,238
(% of Par)	5.718%	5.663%	5.706%

* Assuming current market rates

	AMT	Non-AMT	Total
Sources:			
Bond Par Amount	$176,600,000	$48,075,000	$224,675,000
Other Sources of Funds			
Bond Funds	2,420,197	634,586	3,054,783
Equity Contribution			
Total Sources:	179,020,197	48,709,586	227,729,783
Uses:			
Refunding Escrow	174,717,203	47,464,695	222,181,898
Cost of Issuance	176,600	48,075	224,675
Underwriter's Discount	883,000	240,375	1,123,375
Insurance	3,240,191	955,456	4,195,646
Additional Proceeds	3,204	985	4,189
Total Uses:	$179,020,197	$48,709,586	$227,729,783

Prepared by Public Financial Management, Inc.

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PFM

Public Financial Management
Financial and Investment Advisors

November 19, 2003

Memorandum

To: Kevin Kone, *Assistant Deputy Director, San Francisco International Airport*

From: Peter W. Miller, *Managing Director*
Adam Aranda, *Consultant*
Reid Taradash, *Consultant*

Re: Benefits of Variable Rate Debt

At the request of the San Francisco International Airport (the "Airport"), Public Financial Management, Inc. ("PFM") has outlined the benefits of issuing variable rate debt for its upcoming Issue 31 financing. The Airport's outstanding debt portfolio consists of $4.27 billion long-term, fixed rate debt. Fixed rate debt is just that, debt where interest rates paid on the bonds are fixed and do not change over time. Fixed rates are historically higher than variable rates yet fixed rate debt provides the issuer with financial and budgetary certainty. The benefits of variable rate are discussed below. Yet, regardless of the benefits of issuing variable rate debt, an issuer should restrict how much variable rate debt it issues to limit the increasing debt burden in a rising interest rate environment. That being said, the opportunity exists for the Airport to benefit from some variable rate exposure within its debt portfolio. The rational for issuing variable rate debt consists of three major arguments: a lower borrowing cost, increased flexibility and asset-liability matching.

Benefits of Variable Rate

The first benefit of issuing variable rate debt is that the average cost of borrowing for variable rate bonds is historically lower than that of fixed rate debt. The current Bond Market Association ("BMA") Index, a widely accepted measure of short-term variable rates, is currently at 1.12%. As a comparison, the 5, 10 and 14-year average percentages of BMA are 2.54%, 2.98% and 3.26%, respectively. The average 30-year fixed rate averages during these same three time periods are much higher: 5.53%, 5.74% and 6.10%. respectively. The weighted average of the Airport's $4.27 billion current fixed-rate debt is 5.2%. Although the fluctuations in the interest rate associated with variable rate debt will create fluctuations in the Airport's debt service, the cost will likely be significantly lower than the cost associated with a fixed rate financing.

An additional benefit afforded to the Airport by issuing variable rate debt is enhanced flexibility. The Airport's current debt portfolio consists entirely of long-term fixed-rate bonds with a 10-year call option. This option requires the Airport to wait 10 years before it can prepay the bonds. Even at that point, the Airport still may be required to pay a call premium. Variable rate debt is callable on any date the rates change (typically 7, 28 or 35 days). Therefore, variable rate permits the Airport to prepay its outstanding variable rate essentially at any time without paying a call premium. This allows the Airport to pursue future refundings when favorable market conditions emerge, reducing the Airport's overall debt costs.

The Airport can also benefit from variable rates by matching its liabilities to its assets. At any one time, the Airport typically has between $200 and $300 million in cash and reserves invested in short term securities. On the liability side, the Airport's portfolio consists only of long-term fixed rate debt. The result of this asset-liability mismatch is that as the Airport experiences lower investment income on its cash in a period of declining interest rates, there is no corresponding drop in expenses. If the Airport converted a similar portion of its liabilities to variable rates, the Airport could match its debt service payments to the interest

rates experienced on its cash reserves. Likewise, as variable rates rise and debt service increases, investment earnings will rise and offset the higher interest cost. It is important to note that rating agencies typically consider 15%-20% of variable rate exposure as acceptable. Pursuing Issue 31 as variable rate would increase the Airport's variable rate debt exposure to only 5%-6% of the total debt portfolio, all of which would be offset by the Airport's short-term assets.

Variable vs. Fixed Rate Refunding

PFM has evaluated the variable-rate refunding for savings and a fixed rate debt restructuring currently contemplated by the Airport and compared the proposed structure to an equivalent financing structured entirely as fixed rate. The refunding results are compared in the chart below. For comprehensive results, see Attachment I.

Fixed vs. Variable Rate Refunding

	Fixed Rate	Variable Rate
Gross Savings	($14,871,840)	$42,508,528
Present Value Savings	$9,569,775	$39,097,499
% of Par	3.5%	15.6%

The variable rate restructuring scenario affords the Airport present value savings of $39.1 million (15.6% of par). By issuing variable rate debt, the Airport is projected to achieve substantial savings. This is compared to the fixed rate alternative, where annualized dis-savings of $2 million beginning in 2008 reduces the present value savings to $9.5 million (3.5% of par).

Assumptions

The variable rate scenario assumes the issuance of Auction Rate Securities with a 3.52% interest rate for Non-AMT bonds and a 3.62% for AMT Bonds even though current rates are around 1%. This represents the 10-year BMA average plus 50 basis points. On-going costs of issuance are assumed to be 0.30% of outstanding par for a remarketing agent and auction agent. Insurance is assumed to be 0.87% of total debt service, which is the current bid for Issue 31. The total underwriting spread is assumed to be $5.5/bond.

The fixed rate scenario assumes current market fixed rates. Insurance is assumed at 0.70% of total debt service, also the current bid for Issue 30. The total underwriting spread for the fixed rate scenario is also $5.5/bond.

As a result of our analysis, we would note that the Airport can benefit from the issuance of variable rate debt through lower borrowing costs, while achieving additional refunding flexibility. From an asset/liability matching standpoint, the Airport may actually reduce the impact of interest rate movements by matching changes in short term investment income with corresponding changes in debt service costs. Overall, it is clear that variable rate debt is a better choice for the Airport than another fixed rate financing.

As always, please feel free to call us at (415) 982-5544 should you have any questions or need additional information.

Attachment

San Francisco International Airport
Fixed vs. Variable Rate Plans of Finance
November 19, 2003

		Fixed Rate Refunding		Variable Rate (ARS) Refunding [2]	
Date	**SFO Aggregate Debt Service[1]**	**Savings**	**Aggregate Debt Service**	**Savings**	**Aggregate Debt Service**
6/30/04	296,043,238	483,347	295,559,891	1,227,074	294,816,164
6/30/05	312,121,694	15,321,706	296,799,988	15,164,891	296,956,803
6/30/06	313,542,785	19,594,181	293,948,604	20,090,946	293,451,839
6/30/07	317,710,859	(260,388)	317,971,247	4,613,698	313,097,161
6/30/08	318,711,487	(2,001,404)	320,712,891	886,733	317,824,754
6/30/09	318,722,192	(2,002,906)	320,725,098	435,781	318,286,412
6/30/10	319,395,845	(1,998,327)	321,394,172	7,597	319,388,248
6/30/11	319,738,080	(1,996,863)	321,734,943	7,014	319,731,066
6/30/12	320,120,959	(1,996,487)	322,117,446	5,651	320,115,308
6/30/13	319,010,844	(1,999,975)	321,010,819	2,834	319,008,010
6/30/14	312,647,744	(2,001,486)	314,649,230	9,042	312,638,703
6/30/15	312,329,561	(1,992,969)	314,322,530	4,627	312,324,935
6/30/16	309,447,699	(2,002,776)	311,450,475	5,269	309,442,430
6/30/17	313,407,537	(1,998,450)	315,405,987	5,680	313,401,857
6/30/18	313,992,980	(1,993,304)	315,986,284	4,684	313,988,296
6/30/19	314,541,068	(1,999,497)	316,540,565	3,511	314,537,558
6/30/20	312,425,260	(1,995,442)	314,420,702	4,454	312,420,806
6/30/21	299,334,176	(2,002,271)	301,336,447	8,637	299,325,539
6/30/22	300,110,686	(2,004,435)	302,115,121	8,218	300,102,468
6/30/23	300,834,408	(2,003,064)	302,837,472	8,060	300,826,348
6/30/24	299,554,945	(2,001,853)	301,556,798	2,404	299,552,541
6/30/25	284,513,782	(1,997,497)	286,511,279	2,725	284,511,057
6/30/26	244,197,099	(2,004,164)	246,201,263		244,197,099
6/30/27	180,035,654	(2,001,184)	182,036,838		180,035,654
6/30/28	174,666,959	(2,003,887)	176,670,846		174,666,959
6/30/29	136,206,605	(2,001,699)	138,208,304		136,206,605
6/30/30	85,247,141	(2,004,619)	87,251,760		85,247,141
6/30/31	36,409,865	(2,002,072)	38,411,937		36,409,865
6/30/32	14,869,635	(2,004,057)	16,873,692		14,869,635
6/30/33					
Total	7,699,890,787	(14,871,840)	7,714,762,627	42,509,528	7,657,381,259
Net PV Savings		9,569,775		39,097,499	
(% of Par)		3.482%		15.608%	

(1) Debt Service is net of capitalized and accrued interest.

(2) Financings assume 3.52% interest rate. AMT Bonds assume an additional 10 basis point premium. Results include fixed-rate restructuring piece.

Prepared by Public Financial Management, Inc.

OFFICE OF THE MAYOR
SAN FRANCISCO

WILLIE LEWIS BROWN, JR.

DATE: December 1, 2003

TO: Harvey Rose, Budget Analyst

From: Monique Moyer

RE: **San Francisco International Airport Variable Rate Debt Proposal**

Per your request, please be advised that I have been briefed by Airport staff and several of their professional consultants with respect to their proposed debt restructuring. I fully support the Airport's proposal to refund certain of their outstanding obligations. Furthermore, I fully support the Airport's proposal to (and strongly recommend that they) reissue as much of the refunded debt in short-term mode as possible.

Background

As you know, annual debt service payments on the Airport's portfolio constitute 51.7% of their operating budget. Annual debt service averages $300 million per year. Currently, the Airport's entire $4.3 billion portfolio is comprised of fixed rate debt repaid from Net Revenues of the Airport. Net Revenues constitute all revenues (aviation and concession) of the Airport less all operating and maintenance expenses.

The policies of all three of the nationally-known rating agencies allow for up to 20% of an issuer's debt portfolio to be outstanding in variable rate mode. Their position is premised upon the proper match of assets to liabilities. In the case of the Airport, their Revenues are variable and significantly impacted by economic climates. However, the bulk of the Airport's expenses are fixed (debt service, management agreements, security, utility expenses, etc.). A restructuring of certain of the Airport's outstanding obligations to variable mode would allow a portion of the debt service payments to float in tandem with Revenues. This has been particularly true in the current economic cycle where the Fed Policy (as directed by Chairman Greenspan) has been singularly influenced by economic pressures within the United States. In other words, interest rates have fallen, and remained low, in accordance with unimpressive rates of economic growth and earnings. Lackluster economic growth continues to constrain the Airport's revenue performance.

Support for Proposal

I have not personally calculated the economic savings the Airport can achieve from the proposed restructuring. My support for the proposal is based on three factors: (1) the economic necessity to address financial stress in the near term; (2) the pressure from rating agencies, bond insurers and bondholders on the City (not just the Airport as a division of the City) to manage its way through this economic cycle; and (3) the performance of the City's own variable rate portfolio and the short-term portfolios of the DeYoung Museum, California Academy of Sciences and San Francisco Ballet which I monitor.

Economic Necessity • I believe that you are more than familiar with the Airport's current economic stress so I will not discuss that further.

Credit Pressures • With respect to pressures from the City's credit analysts (rating agencies and bond insurers), both Airport finance staff and the Office of Public Finance have received formal and informal inquiries and statements as to our plans to better align assets with liabilities. In my opinion, the capital markets' expectations have been clearly articulated and the City (not just the Airport) has been put on notice. As a sophisticated financial entity with significant resources devoted to debt issuance and management, we are expected to actively manage our portfolio and we owe that to our constituents.

Variable Rate Bond Performance • In November 2000, the Mayor's Office of Public Finance structured and sold Variable Rate Demand Notes for the Moscone West convention center project. The bonds were issued and remain outstanding as 7-day variable rate demand notes. As such, the interest rate on the bonds resets every week based on 7-day borrowing rates. In November 2000, the aggregate fixed rate (30 year equivalent) would have been 5.33%. Instead the bonds were issued at the then-weekly rate of 3.82%.

In the ensuing three years, interest rates have declined dramatically and remained at historically low levels. The average aggregate rate on the Moscone bonds from November 2000 to November 2003 is 1.63%. This represents a savings versus the fixed rate of 3.70% to date.

From a purely budgetary perspective, all of the Moscone Convention Center bonds are repaid with hotel tax revenues (transient occupancy taxes). The Moscone West bonds represent only 37% of the outstanding Moscone convention center bonds and the related Hotel Tax bonds (which funded improvements to Yerba Buena Gardens). The remainder of these bonds bear fixed interest rates which cannot be refinanced for some time to come. Clearly, during this economic cycle, the fixed nature of the debt presents a financial constraint in that the City is unable to reduce its debt service payments in tandem with falling interest rates, and falling hotel tax revenues.

In the 3-year period since the Moscone West bonds were issued, hotel tax revenues have declined by 32%. Long-term interest rates have remained unchanged at 5.24%. ***Conversely, short-term interest rates have declined by an astounding 74%.*** As a result, the City has saved $17.6 million in interest expense during the past three years which equates to 70% of the amount that would have been due on fixed rate bonds. Had the bonds been issued in fixed rate mode, $17.6 million of additional revenues (from hotel taxes or other general fund sources) would have had to be used to pay debt service.

The results of the above transaction are not unique. In June 2002, the Fine Arts Museums Foundation borrowed $143 million of short-term debt to finance the New DeYoung Museum. Their average borrowing rate has been 0.95% in the 17 months that the bonds have been outstanding. In March 2003, the California Academy of Sciences Foundation borrowed $60 million to finance its renovation. Their average borrowing rate has been 0.83% in the 8 months that the bonds have been outstanding. And in July 2002, the San Francisco Ballet borrowed $19.5 million to finance their expansion. Their average borrowing rate has been 1.1% in the 28 months that the bonds have been outstanding.

Summary

The Airport proposes to restructure $230 million (5% of their outstanding debt portfolio) to variable rate debt. If the Airport had had $230 million in short-term debt outstanding during the last three years, they probably could have saved almost $30 million in debt service expense. While it is certain that short-term interest rates will not remain at these low levels indefinitely, it is my opinion that short-term rates will not approximate 5% in the foreseeable future. However, the risk of rising interest rates can be managed by the Airport. First, by appropriate annual budgeting (that is, budgeting at higher rates than current market rates). And, second, by reissuing the debt in "multi-modal" form meaning that the Airport will have the ability to change the interest rate mode on its variable rate debt in 90 days or less. Thus, in the event short term rates begin to rise dramatically, the Airport can easily convert these bonds back to fixed rate and lock in rate protection.

Backstrom McCarley Berry & Co., LLC

November 18, 2003

To: Kevin Kone

Re: Bond Insurance and Surety Providers
San Francisco International Airport Second Series Revenue Refunding Bonds, Issue 30/31

The full industry universe of first tier (AAA) rated municipal bond insurers and surety providers were solicited for the Airport's Second Series Revenue Refunding Bonds, Issue 30/31. There are five such firms (see listing below) recognized in the industry. Of the five XL Capital is a newer participant in providing municipal bond insurance products and was not active when the Board of Supervisors originally approved the other four insurance providers. Each of the other four providers has previously insured Second Series Revenue Bonds of the Airport. All of the previously issued senior lien Second Series Revenue Bonds of the Airport have been insured and the use of bond insurance acts to lower the overall borrowing costs of the Airport. Some of the previous insurers are at or close to their capacity constraints for additional credit exposure for Second Series Revenue Bonds of the Airport. Further the current general U.S. airport and airline environment has put additional pricing pressure on bond insurance and sureties for airport revenue bonds. Therefore it is desired to expand the Airport's potential use of bond insurance and surety providers to reflect the current full industry universe. As a newer participant XL Capital's trading value is slightly less advantageous than the four more established insurers. Therefore the present value cost savings analysis has included a 5 – 7 basis point trading disadvantage for XL Capital vs. FGIC (a more established municipal insurance provider and next lowest cost insurer). XL Capital has insured bond issues for other major domestic airports and has also insured bonds issued by the State of California

Bond Insurer Premium Summary

Bond Insurer	Fixed Rate Premium (basis points)	Auction Rate Premium
XL Capital	70	87.5
FGIC	130	145
AMBAC	225 – 250 (a)	225
MBIA	Declined due to capacity	N/A
FSA	Declined due to capacity	N/A

Reserve Fund Surety Premium Summary

Surety Provider	Reserve Fund Premium (based on $30 mil. DSRF)
XL Capital	2.5%
FGIC	5.3%
AMBAC	Declined due to capacity / exposure
MBIA	Declined due to capacity
FSA	Declined due to capacity

Summary of Present Value Cost Savings Using XL Capital vs. Next Lowest Cost Insurer

Bond Structure	Fixed Rate	Fixed Rate w/ Surety	Auction Rate	Auction Rate w/ Surety
PV Cost Savings	$1,081,710	$1,919,540	$1,560,561	$2,373,911

(a) Plus commitment fee for forward delivery

Item 17 – File 03-1814

Departments:	Recreation and Park Department (RPD) Department of Administrative Services, Real Estate Division (RED)
Item:	Resolution approving and authorizing the purchase of certain real property; adopting findings pursuant to the California Environmental Quality Act; adopting findings that the conveyance is consistent with the City's general plan and eight priority policies of City Planning Code Section 101.1; and authorizing the Director of Property to execute documents and take certain actions in furtherance of this resolution.
Location:	Assessor's Block No. 841, Lot 29 438 Page Street between Webster and Buchanan Streets
Purchaser:	Real Estate Division (RED) on behalf of the City
Seller:	San Francisco League of Urban Gardeners (SLUG)
Size:	3,297 square feet
Purchase Price:	$675,000, or $204.73 per square feet, plus an estimated $8,000 in closing costs, for an estimated total cost of acquisition of $683,000.
Source of Funds:	Open Space Fund
Description:	The proposed resolution would authorize the purchase by the Real Estate Division of vacant land located at 438 Page Street, Assessor's Block No. 841, Lot 29 between Webster and Buchanan Streets, adjacent to the John Muir Elementary School. The subject property would be purchased by the RED, as buyer, from a nonprofit agency, the San Francisco League of Urban Gardeners (SLUG), as seller, for $683,000, or $204.73 per square feet, which includes the $675,000 purchase price and an estimated $8,000 in closing costs. According to Ms. Claudine Venegas of the Real Estate Division, the subject property, which consists of approximately 3,297 square feet of vacant land, is

currently being used as a community garden, known as the Page Street Community Garden. Attachment I, provided by Ms. Venegas includes a map and the facts related to the proposed purchase of the vacant land. As stated in Attachment I, "If purchased by the Real Estate Division, the property would be maintained as an open space and community garden by the Recreation and Park Department." Ms. Svetlana Karasyova of the Recreation and Park Department reports that SLUG has maintained the subject property as a community garden, since it was gifted to SLUG from another nonprofit organization, the San Francisco Zen Center in the mid-1980s. According to Ms. Karasyova, the subject property is currently for sale by SLUG. Ms. Karasyova reports that on July 17, 2003 the Recreation and Park Commission approved a resolution (Resolution No. 0307-019) endorsing the acquisition of the Page Street Community Garden, and urging the Board of Supervisors to purchase the subject property, placing it under the jurisdiction of the Recreation and Park Commission.

The Department of City Planning reported by letter dated August 15, 2003, that the proposed acquisition is in conformity with the General Plan and is consistent with the Eight Priority Policies of Planning Code, Section 101.1, as listed in Attachment II, provided by the RED. The Director of Planning also found that the acquisition is categorically exempt from the California Environmental Quality Act (CEQA).

Comments:

1. According to Ms. Venegas, the RED retained David Tattersall & Co., to conduct an appraisal of the subject property, who determined that the fair market value is $675,000, or approximately $204.73 per square feet. As previously noted, according to Ms. Venegas, the RED estimates that the City would pay $8,000 in closing costs in addition to the $675,000 purchase price, for a total acquisition cost of $683,000.

2. According to Mr. Ron Kugonoski of the Department of Public Works (DPW), an Environmental Site Assessment of the proposed property was conducted on November 16, 2003 by Fugro West, an environmental consulting firm retained by the DPW's Bureau of Construction Management. Attachment III, provided by Mr.

Kugonoski, is the Environmental Site Assessment summary, which states, "Based on the assessment, discussions with knowledgeable parties, and a review of available information, Ward & Associates has not identified any issues of potential environmental concern at the subject site."

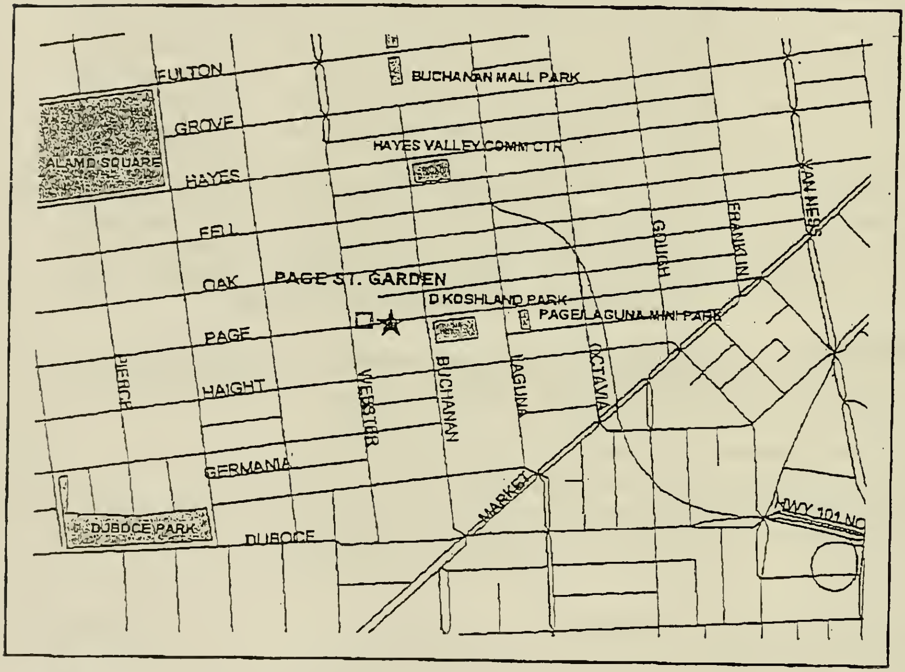
3. According to Mr. Rich Hillis of the Assessor's Office, the assessed valuation of Lot 29, or 438 Page Street, is $213,525. Mr. Hillis reports that the subject property is currently exempt from Property Taxes under the ownership of SLUG, a nonprofit agency. According to Mr. Hillis, based on an appraised value of $675,000, and based on the Fiscal Year 2003-2004 tax rate of $1.107 per $100 of assessed valuation, the annual Property Taxes to be paid to the City on Lot 29 would be approximately $7,472 if such property were sold to a private entity. Once the City acquires the subject property, such Property Taxes would not be paid to the City.

Recommendation: Approval of the proposed resolution is a policy matter for the Board of Supervisors.

ATTACHMENT A:

LOCATION MAP
Page Street Community Garden

438 Page Street (between Buchanan and Webster Streets)



Page Street Community Garden

John Muir Elementary School

Parks and Open Space

Date: November 20, 2003
To: Leanne Nhan, Budget Analyst, San Francisco Board of Supervisors
From: Claudine Venegas, Department of Real Estate
Cc: Svetlana Karasyova, Recreation and Park Department

Re: **Proposal by Recreation and Park Commission to Acquire Page Street Community Garden, Assessor's Block 841, Lot 29**

Purpose of the Purchase of Property

To preserve a vital open space and a community garden asset for Hayes Valley Neighborhood, threatened by change of ownership and possible development. The Page Street Community Garden is currently on the market and will be sold to a private party. The property has no sales restriction or open space preservation easement. The garden is most likely to be developed resulting in the loss of the community garden and open space. If purchased by the Real Estate Division, the property would be maintained as an open space and community garden by the Recreation and Park Department.

The Page Street Community Garden acquisition proposal was initiated in the fall of 2002 by Save Page Street Garden Committee - a community advocacy group comprised of Page Street gardeners, neighborhood residents, and Hayes Valley Neighborhood activists.

Detailed Description of Property

Page Street Community Garden is located at 438 Page Street between Webster and Buchanan Streets, Lot 29, Assessor's Block 841. The property consists of 3,297 square feet. It is two lots deep: It has a 27.5 foot frontage along the north line of Page Street, and a 27.5 foot frontage along the south line of Lily Street, with an overall depth of 120 feet. The current land use is community garden, which is surrounded by residential uses in a high-density neighborhood. The garden has 41 individual lots (3'X8' on average) and hosts a diverse community of over 100 gardeners. Among these gardeners are individuals, families, elementary school students, cooperatives, seniors, Zen center members, renters and homeowners, or persons of African American, Chinese, and Latino descent. The garden is located in the area with a fairly large population of persons of African American descent. It is adjacent to John Muir Elementary School, which uses the garden as an outdoor classroom for natural science and often for recreational use. There is a patio in the back for enjoyment of open space.

The property was originally given to SLUG as a gift from the San Francisco Zen Center, with no sales restriction or open space preservation easement. SLUG has maintained this garden successfully for years, capitalizing on the community's strong support and investment. There is a designated Garden Coordinator who volunteers his or her time to oversee the overall maintenance, plot management, and workdays of the garden. There is a waiting list of future gardeners who are placed within 2-5 months after contacting the Garden Coordinator. Plots are given out on a first come, first serve basis.

Property Inventory:

Plots:	41
Water outlets or hoses:	1
Tools:	1 shovel, 6 small hand tools, 1 limb pruner, 2 rakes, 1 hoe, 1 hose, 1 wheel barrel, 1 compost chopper, 1 axe, and 2 small plant pruners.
Structures:	1 shed in the garden approximately 6 feet wide, 3 feet deep and 8 feet tall. It is raised about 6 inches off the ground and has a hinged door with a pad lock on it.
Recreational amenities:	1 outdoor patio.

Fair Market Value

The fair market value of the fee simple interest in the subject property is $675,000 as determined by the independent appraisal completed by David Tattersall & Co. in April 2003. The purchase price is equivalent to fair market value.

Cost of Land, Source of Funds, FY 2003-2004 Budget

The cost of land is equivalent to fair market value of $675,000. This amount will be paid for through the Open Space Fund. Adequate funds for this acquisition are available in Fiscal Year 2003-2004. The City Charter requires that 5% of annual Open Space Fund be set aside toward acquisition of land. The closing costs estimated to be $8,000, also to be paid for through the Open Space Fund, are in addition to the estimated fair market value purchase cost of $675,000.

Purchase Agreement

The Department of Real Estate is seeking authorization to purchase the property for no more than the amount authorized (fair market value) pursuant to an agreement yet to be drafted that will be based on the standard City Purchase and Sale Agreement form and approved by the Director of Property, the General Manager and the City Attorney's Office. The estimated close of escrow is 45-60 days after approval by the Board of Supervisors and Mayor.

Costs to the City as a Result of Purchase

Operating costs associated with this property will be approximately $3,200 annually. Such costs include covering maintenance e.g., water, soil, and repairs at $1,800, and training/coordination and community outreach at $1,400. The operating costs include the training and coordination of gardeners, and community outreach to promote gardening opportunities in the City, recruit new gardeners and update gardeners on current events. These costs will be absorbed in the Recreation and Park Department's FY 2003-2004 budget and future annual budgets.

In addition, we anticipate that the garden would need $5,000 every five years for capital improvement work, which could include major repairs to the garden beds, maintenance shed or patio. This cost will also be absorbed in the Recreation and Park Department's future budgets.

There are two rationales for the estimated low-maintenance costs. First, the Page Street Community Garden has been successfully maintained for years by the volunteer group of gardeners who also provide coordination/training services for new members. The community surrounding the garden is highly invested in preserving the garden and maintaining it as open space. Second, the Recreation and Park Department will seek an opportunity to enter a maintenance agreement with non-profit horticultural organizations similar to San Francisco League of Urban Gardeners (SLUG). It is the Department's hope that SLUG remains a viable organization.

Benefits to the City

- Acquiring a developed and established garden with minimal fiscal impact to the City. There are no costs involved in developing the Page Street Community Garden. (The garden has almost 30 years of history in the neighborhood.) Future maintenance costs are minimal, for the garden is fully maintained by the volunteer group of gardeners who also provide coordination/training services for new members.
- Preserving existing public open space. The acquisition of the Page Street Community Garden by the Recreation and Park Department would ensure the preservation of an existing public open space into perpetuity (Determination by City Planning, Case No. 2003.0733R, August 15, 2003).
- Giving priority to areas which are most deficient in open space. The Hayes Valley/Western Addition area is currently deficient in open space, especially smaller-scale, neighborhood-serving open space. Acquisition of the Page Street Garden Community Garden would ensure that this important neighborhood space remains available to the public (Determination by City Planning, Case No. 2003.0733R, August 15, 2003).
- Expanding community garden opportunities throughout the city as required by the City General Plan. By ensuring that the Page Street Community Garden remains available to the public, community garden opportunities for the surrounding neighborhood will be preserved (Determination by City Planning, Case No. 2003.0733R, August 15, 2003).

Re: Case No. 2003.0733R
Proposed Acquisition of 438 Page Street Community Garden

Consistency with the Eight Priority Policies

The subject project is found to be consistent with the Eight Priority Policies of the Planning Code Section 101.1 in that:

1. The project would have no adverse effect on neighborhood serving retail uses or opportunities for employment in or ownership of such businesses.

2. The project would have no adverse effect on the City's housing stock or on neighborhood character.

3. The project would have no adverse effect on the City's supply of affordable housing.

4. The project would not result in commuter traffic impeding MUNI transit service or overburdening the streets or neighborhood parking.

5. The project would not adversely affect the industrial or service sectors or future opportunities for resident employment or ownership in these sectors.

6. The project would not adversely affect preparedness against injury and loss of life in an earthquake and would comply with applicable safety standards.

7. The project would have no effect on preservation of landmarks or historic buildings.

8. The project would have no adverse effect on parks and open space or their access to sunlight and vistas.

EXECUTIVE SUMMARY

The Phase I Environmental Site Assessment (ESA) was performed by W&A as authorized by Fugro on November 20, 2003 according to W&A's scope of work, dated November 16, 2003. It is W&A's understanding that this ESA pertains to a potential property acquisition and/or development. The purpose of the Phase 1 ESA was to identify potential environmental concerns associated with the past or present use, generation, storage, or disposal of hazardous materials and/or waste at the Site, and at nearby properties judged to have a potential to affect the Site.

The ESA consisted of reconnaissance of the subject property and immediately adjacent properties; record review and interviews with applicable representatives with the Site, the City and County of San Francisco; historical review of the Site and immediately adjacent properties; and review of regulatory databases regarding the presence or likelihood of recognized environmental conditions (RECs) in general accordance with ASTM Standard E 1527-94. A representative of W&A visited the Site on November 24, 2003.

The property is identified as APN 0841-029, at 438 Page Street, San Francisco, CA, 94102 and is currently used as an urban garden. The lot area contains approximately 3,297 square feet and is zoned RH3 for medium density residential.

W&A purchased an EDR report that searched 45 environmental regulatory databases to identify the Site or surrounding properties within a one mile radius of the Site. The subject site and surrounding properties were not listed on any of the databases researched.

Based upon the findings, W&A identified no recognized environmental conditions for the Site or properties immediately surrounding the property. Based on these findings, it is unlikely that soil and groundwater have been impacted at the Site. Based on the site survey, discussion with knowledgeable persons, and review of available information, W&A recommends no further investigation at this time.

Ward & Associates performed an environmental site assessment of the vacant Parcel located in San Francisco, CA, to investigate and evaluate the environmental condition of the subject site and surrounding properties. Based on the assessment, discussions with knowledgeable parties, and a review of available information, Ward & Associates has not identified any issues of potential environmental concern at the subject site.

Auditor: Approved for Release:

______________________________ ______________________________

William H. Ward, REA I-06798

Item 18 – File 03-1962

Department: Sheriff's Department

Item: Resolution approving the Controller's certification that own recognizance release, pretrial court diversion, and supervised misdemeanant services provided to persons arrested in the City and County of San Francisco can continue to be practically performed by private contractors for a lower cost for the year commencing July 1, 2003 than similar services performed by City and County employees.

Program Services to be Performed: Own Recognizance and Pretrial Court Diversion, Supervised Misdemeanant Services

Description: Charter Section 10.104.15 provides that the City may contract with private firms for services which had been performed by City employees if the Controller certifies, and the Board of Supervisors concurs, that such services can in fact be practically performed by private firms at a lower cost than similar services performed by City and County employees.

The Controller has determined that contracting for these services for the Sheriff's Department for FY 2003-2004 would result in estimated savings as follows:

Own Recognizance Services and Pretrial Court Diversion Services

City-Operated Service Costs	Lowest Salary Step	Highest Salary Step
Salaries	$1,386,079	$1,617,758
Fringe Benefits	310,753	330,489
Total	$1,696,832	$1,948,247
Contractual Services Costs	(1,429,250)	(1,431,771)
Estimated Savings	$267,583*	$516,476

*Rounded

Supervised Misdemeanant Services

City-Operated Service Costs	Lowest Salary Step	Highest Salary Step
Salaries	$437,476	$518,772
Fringe Benefits	93,162	99,658
Total	$530,639*	$618,429*
Contractual Services Costs	(345,209)	(361,396)
Estimated Savings	$185,430	$257,034*

*Rounded

Comments:

1. The Own Recognizance (O.R.) Project interviews persons, arrested on either (a) non-warrant felony charges or (b) certain misdemeanor charges, who are booked into custody and are not immediately bailed or cited. The interviews provide information for the Superior Court to determine whether such persons should be released on their own recognizance.

The Pretrial Court Diversion Services Project diverts selected misdemeanor and non-violent felony offenders from the criminal justice system and places such offenders in the Pretrial Diversion Project to receive case management and referral to services such as vocational training, job placement, counseling, and substance abuse treatment.

The Supervised Misdemeanant Services releases persons accused of certain misdemeanor offenses, who cannot post bail, from the criminal justice system to the Supervised Misdemeanant Project. The Supervised Misdemeanant Project guarantees that the accused person will return to Superior Court for a hearing.

2. According to Ms. Jean Mariani of the Sheriff's Department, the O.R. Service was first certified as required under Proposition J, (Charter Section 10.104) in

FY 1977-1978 and has been continuously provided by an outside contractor since that time.

Ms. Mariani further reports that Pretrial Diversion Project services was first certified as required under Proposition J in FY 1977-1978 and has been continuously provided by an outside contractor since that time.

Ms. Mariani advises that FY 2002-2003 was the first year that Supervised Misdemeanant Services were certified under Charter Section 10.104.15. Previously, Ms. Mariani notes that the City's Civil Service Commission approved personal service contracts for these services. However, Ms. Mariani advises that during FY 2001-2002, the Civil Service Commission requested that the Supervised Misdemeanant Services be provided by the Sheriff's Department with Civil Service employees. Ms. Mariani reports that the Department decided to continue to provide such services with an outside contractor per Charter Section 10.104.15 because such services would be more expensive if City employees were used.

3. The one-year contracts with (a) the San Francisco Pretrial Diversion Project, Inc., the non-profit organization which provides the O.R. Services and the Pretrial Court Diversion Services and (b) the Center on Juvenile and Criminal Justice, Inc., the non-profit organization which provides the Supervised Misdemeanant Services, each will commence on January 1, 2004. According to Ms. Mariani, the San Francisco Pretrial Diversion Project and the Center on Juvenile and Criminal Justice were both selected through a Request for Proposals (RFP) process.

4. The Estimated Contractual Services Costs used for the purpose of this analysis is (a) the San Francisco Pretrial Diversion Project's projected FY 2003-2004 cost for Own Recognizance Project and Pretrial Court Diversion Services, (b) the Center on Juvenile and Criminal Justice's projected FY 2003-2004 cost for the Supervised Misdemeanant Services.

5. The Controller's supplemental questionnaire with the Sheriff's Department's responses is attached to this report.

Recommendation: Approve the proposed resolution.

Harvey M. Rose

cc: Supervisor Peskin
Supervisor Sandoval
Supervisor McGoldrick
Clerk of the Board
Controller
Ben Rosenfield
Ted Lakey

CHARTER 10.104.15 (PROPOSITION J) QUESTIONNAIRE

DEPARTMENT: 06/Sheriff

CONTRACT SERVICES: Pretrial Court Diversion Services, Determination of Eligibility for Release on Own Recognizance/Probable Cause for Detention

CONTRACT PERIOD: July 1, 2003 through June 30, 2004

(1) Who performed the activity/service prior to contracting out?

Court diversion services were initially funded through a federal grant and service workers performed the duties. The City did not perform own recognizance/probable cause services prior to contracting out.

(2) How many City employees were laid off as a result of contracting out?

None

(3) Explain the disposition of employees if they were not laid off.

Not applicable

(4) What percentage of City employees' time is spent of services to be contracted out?

None

(5) How long have the services been contracted out? Is this likely to be a one-time or an ongoing request for contracting out?

Court diversion services have been provided under contract since 1977; own recognizance services since 1966. This is an ongoing request.

(6) What was the first fiscal year for a Proposition J certification? Has it been certified for each subsequent year?

Both services were first certified through Proposition J in 1977-78 and have been certified for each subsequent year.

(7) How will the services meet the goals of your MBE/WBE Action Plan?

The MBE/WBE Action Plan is not affected because a nonprofit organization provides the services.

(8) Does the proposed contractor provide health insurance for its employees? Yes

(9) Does the proposed contractor provide benefits to employees with spouses? If so, are the same benefits provided to employees with domestic partners? If not, how does the proposed contractor comply with the Domestic Partners ordinance?

The contractor provides the same benefits to employees with spouses as those with registered domestic partners in full compliance with the ordinance.

(10) Does the proposed contractor pay meet the provisions of the Minimum Compensation Ordinance? Yes

Department Representative: Jean M. Mariani, Chief Financial Officer

Telephone Number: (415) 554-4316

CHARTER 10.104.15 (PROPOSITION J) QUESTIONNAIRE

DEPARTMENT: 06/Sheriff

CONTRACT SERVICES: Supervised Misdemeanant Referral and Case Management Services

CONTRACT PERIOD: July 1, 2003 through June 30, 2004

(1) Who performed the activity/service prior to contracting out?

The City did not perform this service prior to contracting out.

(2) How many City employees were laid off as a result of contracting out?

Not applicable.

(3) Explain the disposition of employees if they were not laid off.

Not applicable.

(4) What percentage of City employees' time is spent of services to be contracted out?

Not applicable.

(5) How long have the services been contracted out? Is this likely to be a one-time or an ongoing request for contracting out?

Services have been provided under contract since 1988. This is an on-going request.

(6) What was the first fiscal year for a Proposition J certification? Has it been certified for each subsequent year?

The first fiscal year for this certification was 2002-03. Prior to that time, the City's Civil Service Commission approved the personal services contracts for these services.

(7) How will the services meet the goals of your MBE/WBE Action Plan?

The MBE/WBE Action Plan is not affected because a nonprofit organization provides the services.

(8) Does the proposed contractor provide health insurance for its employees?

Yes

(9) Does the proposed contractor provide benefits to employees with spouses? If so, are the same benefits provided to employees with domestic partners? If not, how does the proposed contractor comply with the Domestic Partners ordinance?

The contractor provides the same benefits to employees with spouses as those with registered domestic partners in full compliance with the ordinance.

(10) Does the proposed contractor pay meet the provisions of the Minimum Compensation Ordinance?

Yes

Department Representative: Jean M. Mariani, Chief Financial Officer

Telephone Number: (415) 554-4316

Members: Aaron Peskin, Gerardo Sandoval and Jake McGoldrick

Clerk: Linda Laws

Wednesday, December 17, 2003 **12:30 PM** **City Hall, Room 263**

Regular Meeting

Members Present: Aaron Peskin, Gerardo Sandoval, Jake McGoldrick.

MEETING CONVENED

The meeting convened at 12:41 p.m.

AGENDA CHANGES

031696 [Lease of Property]

Resolution authorizing a 25-year Lease of San Francisco Public Utilities Land between the City and County of San Francisco and Sunol Valley Golf & Recreation Co., in Alameda County. (Public Utilities Commission)

(Fiscal impact; Public Benefit Recipient.)

10/1/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

10/29/03, CONTINUED. Heard in Committee. Speakers: none.

Continued to November 5, 2003.

11/5/03, CONTINUED. Heard in Committee. Speakers: Garrett Dowd, SFPUC; Josh Milstein and Hazel Brandt, Deputy City Attorneys, Ken Bruce, Budget Analyst's Office; Harvey Rose, Budget Analyst; David Dornbusch, Dornbusch & Associates; Brian Richardson, Sunol Valley Golf & Recreation Company; Howard Strassner.
Continued to 11/19/03.

11/19/03, CONTINUED. Heard in Committee. Speakers: Cheryl Adams, Josh Milstein, Hazel Brandt, Deputy City Attorneys; Garrett Dowd, SFPUC; Harvey Rose, Budget Analyst; Monique Zmuda, Controller's Office
Continued to 12/17/03.

Speakers: None.

TABLED by the following vote:

Ayes: 2 - Peskin, Sandoval
Absent: 1 - McGoldrick

031814 **[Purchase of real property located at 438 Page Street, Assessor's Block 841, Lot 29]**

Supervisor Gonzalez

Resolution approving and authorizing the purchase of certain real property; adopting findings pursuant to the California Environmental Quality Act: adopting findings that the conveyance is consistent with the City's general plan and eight priority policies of City Planning Code Section 101.1; and authorizing the Director of Property to execute documents and take certain actions in furtherance of this resolution.

(Fiscal impact.)

11/4/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

12/10/03, CONTINUED. Speakers: Steve Legnitto, Real Estate Division; Roger Gordon, SLUG; Jude Koski; Gabriela Barragan, Legislative Aide to Supervisor Gonzalez.
Continued to 12/17/03.

Heard in Committee. Speakers: Steve Legnitto, Real Estate Division; Bill Barnes, Legislative Aide to Supervisor Daly; Monique Zmuda, Controller's Office; Elizabeth Goldstein, Recreation and Park Department; Supervisor Gonzalez; Roger Gordon, SLUG; Stephanie Adrackis; Anne McGuire; Jude Koski; Mary Watson; Svetlana Karazyova, Recreation and Park Department.

RECOMMENDED by the following vote:

Ayes: 3 - Peskin, Sandoval, McGoldrick

031526 **[Airport Concession Lease]**

Resolution approving Amendment No. 3 to the Post-Security Master Retail/Duty Free Concession in the New International Terminal Building Lease No. 99-0035 between DFS Group, L.P. and the City and County of San Francisco, acting by and through its Airport Commission. (Airport Commission)

(Fiscal impact; No Public Benefit Recipient.)

9/12/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

12/3/03, CONTINUED. Speakers: None.
Continued to 12/10/03.

12/10/03, CONTINUED. Speakers: None.
Continued to 12/17/03.

Heard in Committee. Speakers: John Martin, Airport Commission; Ralph Glenn, RDG Concession, LLC; Javier Vega, Pacific Gateway Concession; David Pfeiffer, Airport Commission; Harvey Rose, Budget Analyst.

RECOMMENDED by the following vote:

Ayes: 3 - Peskin, Sandoval, McGoldrick

031506 **[Appropriate funding for the sale of school bond proceeds for capital improvement projects on various school facilities]**

Mayor

Ordinance appropriating $29,480,000 of school bond proceeds for capital improvement projects on various school facilities, cost of issuance, and other related costs for the San Francisco Unified School District for fiscal year 2003-04.

(Fiscal impact.)

8/26/03, RECEIVED AND ASSIGNED to Finance and Audits Committee

Heard in Committee. Speakers: Rhonda Parhams, SFUSD; Harvey Rose, Budget Analyst.

RECOMMENDED by the following vote:

Ayes: 2 - Peskin, McGoldrick
Absent: 1 - Sandoval

031410 **[Public Utilities Commission's Agreement No. CS-524]**

Supervisor Peskin

Hearing regarding Public Utilities Commission's continuation of Agreement No. CS-524, Program Management Services, with the Water Infrastructure Partners (WIP) with a report from Harlan Kelly of the Public Utilities Commission.

8/12/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

8/20/03, CONTINUED TO CALL OF THE CHAIR. Heard in Committee. Speakers: Harlan Kelly, SF Public Utilities Commission; Male Speaker, Local 21; David Novogrodsky, Local 21.

Speakers: None.

CONTINUED TO CALL OF THE CHAIR by the following vote:

Ayes: 2 - Peskin, Sandoval
Absent: 1 - McGoldrick

031886 **[Extending the Cooperative Agreement between TIDA and the U.S. Navy through which TIDA provides caretaker services at former Naval Station Treasure Island]**

Mayor

Resolution approving and authorizing the Treasure Island Development Authority to enter into the 16th modification to the Cooperative Agreement with the Navy to extend the Cooperative Agreement to September 30, 2004.

11/18/03, RECEIVED AND ASSIGNED to Finance and Audits Committee.

Heard in Committee. Speaker: Stephen Proud, TIDA.
12/17/03 Amend the title on page 1 line 3 after "Resolution" add ", retroactively to October 1, 2003.". At page 2 line 17 after "authorizes" add ", retroactive to October 1, 2003,".

AMENDED.

Resolution, retroactive to October 1, 2003, approving and authorizing the Treasure Island Development Authority to enter into the 16th modification to the Cooperative Agreement with the Navy to extend the Cooperative Agreement to September 30, 2004.

RECOMMENDED AS AMENDED by the following vote:

Ayes: 2 - Peskin, McGoldrick
Absent: 1 - Sandoval

ADJOURNMENT

The meeting adjourned at 1:50 p.m.

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET ANALYST

1390 Market Street, Suite 1025, San Francisco, CA 94102 (415) 554-7642
FAX (415) 252-0461

December 11, 2003

TO: Finance and Audits Committee

FROM: Budget Analyst

SUBJECT: December 17, 2003 Finance and Audits Committee Meeting

Item 2 – File 03-1814

Note: This item was continued by the Finance and Audits Committee at its meeting of December 10, 2003.

Departments: Recreation and Park Department (RPD)
Department of Administrative Services, Real Estate Division (RED)

Item: Resolution approving and authorizing the purchase of certain real property; adopting findings pursuant to the California Environmental Quality Act; adopting findings that the conveyance is consistent with the City's general plan and eight priority policies of City Planning Code Section 101.1; and authorizing the Director of Property to execute documents and take certain actions in furtherance of this resolution.

Location: Assessor's Block No. 841, Lot 29
438 Page Street between Webster and Buchanan Streets

Purchaser: Real Estate Division (RED) on behalf of the City

Seller: San Francisco League of Urban Gardeners (SLUG)

Size: 3,297 square feet

Purchase Price: $675,000, or $204.73 per square feet, plus an estimated $8,000 in closing costs, for an estimated total cost of acquisition of $683,000.

Source of Funds: Open Space Fund

Description: The proposed resolution would authorize the purchase by the Real Estate Division of vacant land located at 438 Page Street, Assessor's Block No. 841, Lot 29 between Webster and Buchanan Streets, adjacent to the John Muir Elementary School. The subject property would be purchased by the RED, as buyer, from a nonprofit agency, the San Francisco League of Urban Gardeners (SLUG), as seller, for $683,000, or $204.73 per square feet, which includes the $675,000 purchase price and an estimated $8,000 in closing costs.

According to Ms. Claudine Venegas of the Real Estate Division, the subject property, which consists of approximately 3,297 square feet of vacant land, is currently being used as a community garden, known as the Page Street Community Garden. Attachment I, provided by Ms. Venegas includes a map and the facts related to the proposed purchase of the vacant land. As stated in Attachment I, "If purchased by the Real Estate Division, the property would be maintained as an open space and community garden by the Recreation and Park Department." Ms. Svetlana Karasyova of the Recreation and Park Department reports that SLUG has maintained the subject property as a community garden, since it was gifted to SLUG from another nonprofit organization, the San Francisco Zen Center in the mid-1980s. According to Ms. Karasyova, the subject property is currently for sale by SLUG. Ms. Karasyova reports that on July 17, 2003 the Recreation and Park Commission approved a resolution (Resolution No. 0307-019) endorsing the acquisition of the Page Street Community Garden, and urging the Board of Supervisors to purchase the subject property, placing it under the jurisdiction of the Recreation and Park Commission.

The Department of City Planning reported by letter dated August 15, 2003, that the proposed acquisition is in conformity with the General Plan and is consistent with the Eight Priority Policies of Planning Code, Section

101.1, as listed in Attachment II, provided by the RED. The Director of Planning also found that the acquisition is categorically exempt from the California Environmental Quality Act (CEQA).

Comments:

1. According to Ms. Venegas, the RED retained David Tattersall & Co., to conduct an appraisal of the subject property, who determined that the fair market value is $675,000, or approximately $204.73 per square feet. As previously noted, according to Ms. Venegas, the RED estimates that the City would pay $8,000 in closing costs in addition to the $675,000 purchase price, for a total acquisition cost of $683,000.

2. According to Mr. Ron Krzyzanowki of the Department of Public Works (DPW), an Environmental Site Assessment of the proposed property was conducted on November 16, 2003 by Fugro West, an environmental consulting firm retained by the DPW's Bureau of Construction Management. Attachment III, provided by Mr. Krzyzanowki, is the Environmental Site Assessment summary, which states, "Based on the assessment, discussions with knowledgeable parties, and a review of available information, Ward & Associates has not identified any issues of potential environmental concern at the subject site."

3. According to Mr. Rich Hillis of the Assessor's Office, the assessed valuation of Lot 29, or 438 Page Street, is $213,525. Mr. Hillis reports that the subject property is currently exempt from Property Taxes under the ownership of SLUG, a nonprofit agency. According to Mr. Hillis, based on an appraised value of $675,000, and based on the Fiscal Year 2003-2004 tax rate of $1.107 per $100 of assessed valuation, the annual Property Taxes to be paid to the City on Lot 29 would be approximately $7,472 if such property were sold to a private entity. Once the City acquires the subject property, such Property Taxes would not be paid to the City.

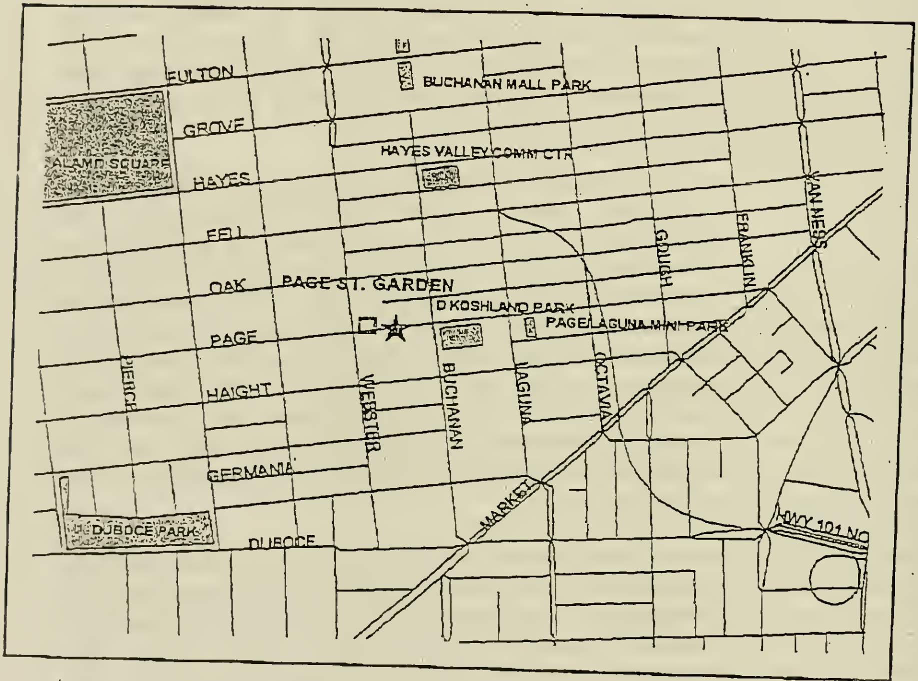
Recommendation:

Approval of the proposed resolution is a policy matter for the Board of Supervisors.

ATTACHMENT A:

LOCATION MAP
Page Street Community Garden

438 Page Street (between Buchanan and Webster Streets)



Page Street Community Garden

John Muir Elementary School

Parks and Open Space

Date: November 20, 2003
To: Leanne Nhan, Budget Analyst, San Francisco Board of Supervisors
From: Claudine Venegas, Department of Real Estate
Cc: Svetlana Karasyova, Recreation and Park Department

Re: Proposal by Recreation and Park Commission to Acquire Page Street Community Garden, Assessor's Block 841, Lot 29

Purpose of the Purchase of Property

To preserve a vital open space and a community garden asset for Hayes Valley Neighborhood, threatened by change of ownership and possible development. The Page Street Community Garden is currently on the market and will be sold to a private party. The property has no sales restriction or open space preservation easement. The garden is most likely to be developed resulting in the loss of the community garden and open space. If purchased by the Real Estate Division, the property would be maintained as an open space and community garden by the Recreation and Park Department.

The Page Street Community Garden acquisition proposal was initiated in the fall of 2002 by Save Page Street Garden Committee - a community advocacy group comprised of Page Street gardeners, neighborhood residents, and Hayes Valley Neighborhood activists.

Detailed Description of Property

Page Street Community Garden is located at 438 Page Street between Webster and Buchanan Streets, Lot 29, Assessor's Block 841. The property consists of 3,297 square feet. It is two lots deep: It has a 27.5 foot frontage along the north line of Page Street, and a 27.5 foot frontage along the south line of Lily Street, with an overall depth of 120 feet. The current land use is community garden, which is surrounded by residential uses in a high-density neighborhood. The garden has 41 individual lots (3'X8' on average) and hosts a diverse community of over 100 gardeners. Among these gardeners are individuals, families, elementary school students, cooperatives, seniors, Zen center members, renters and homeowners, or persons of African American, Chinese, and Latino descent. The garden is located in the area with a fairly large population of persons of African American descent. It is adjacent to John Muir Elementary School, which uses the garden as an outdoor classroom for natural science and often for recreational use. There is a patio in the back for enjoyment of open space.

The property was originally given to SLUG as a gift from the San Francisco Zen Center, with no sales restriction or open space preservation easement. SLUG has maintained this garden successfully for years, capitalizing on the community's strong support and investment. There is a designated Garden Coordinator who volunteers his or her time to oversee the overall maintenance, plot management, and workdays of the garden. There is a waiting list of future gardeners who are placed within 2-5 months after contacting the Garden Coordinator. Plots are given out on a first come, first serve basis.

Property Inventory:

Plots:	41
Water outlets or hoses:	1
Tools:	1 shovel, 6 small hand tools, 1 limb pruner, 2 rakes, 1 hoe, 1 hose, 1 wheel barrel, 1 compost chopper, 1 axe, and 2 small plant pruners.
Structures:	1 shed in the garden approximately 6 feet wide, 3 feet deep and 8 feet tall. It is raised about 6 inches off the ground and has a hinged door with a pad lock on it.
Recreational amenities:	1 outdoor patio.

Fair Market Value

The fair market value of the fee simple interest in the subject property is $675,000 as determined by the independent appraisal completed by David Tattersall & Co. in April 2003. The purchase price is equivalent to fair market value.

Cost of Land, Source of Funds, FY 2003-2004 Budget

The cost of land is equivalent to fair market value of $675,000. This amount will be paid for through the Open Space Fund. Adequate funds for this acquisition are available in Fiscal Year 2003-2004. The City Charter requires that 5% of annual Open Space Fund be set aside toward acquisition of land. The closing costs estimated to be $8,000, also to be paid for through the Open Space Fund, are in addition to the estimated fair market value purchase cost of $675,000.

Purchase Agreement

The Department of Real Estate is seeking authorization to purchase the property for no more than the amount authorized (fair market value) pursuant to an agreement yet to be drafted that will be based on the standard City Purchase and Sale Agreement form and approved by the Director of Property, the General Manager and the City Attorney's Office. The estimated close of escrow is 45-60 days after approval by the Board of Supervisors and Mayor.

Costs to the City as a Result of Purchase

Operating costs associated with this property will be approximately $3,200 annually. Such costs include covering maintenance e.g., water, soil, and repairs at $1,800, and training/coordination and community outreach at $1,400. The operating costs include the training and coordination of gardeners, and community outreach to promote gardening opportunities in the City, recruit new gardeners and update gardeners on current events. These costs will be absorbed in the Recreation and Park Department's FY 2003-2004 budget and future annual budgets.

In addition, we anticipate that the garden would need $5,000 every five years for capital improvement work, which could include major repairs to the garden beds, maintenance shed or patio. This cost will also be absorbed in the Recreation and Park Department's future budgets.

There are two rationales for the estimated low-maintenance costs. First, the Page Street Community Garden has been successfully maintained for years by the volunteer group of gardeners who also provide coordination/training services for new members. The community surrounding the garden is highly invested in preserving the garden and maintaining it as open space. Second, the Recreation and Park Department will seek an opportunity to enter a maintenance agreement with non-profit horticultural organizations similar to San Francisco League of Urban Gardeners (SLUG). It is the Department's hope that SLUG remains a viable organization.

Benefits to the City

- Acquiring a developed and established garden with minimal fiscal impact to the City. There are no costs involved in developing the Page Street Community Garden. (The garden has almost 30 years of history in the neighborhood.) Future maintenance costs are minimal, for the garden is fully maintained by the volunteer group of gardeners who also provide coordination/training services for new members.
- Preserving existing public open space. The acquisition of the Page Street Community Garden by the Recreation and Park Department would ensure the preservation of an existing public open space into perpetuity (Determination by City Planning, Case No. 2003.0733R, August 15, 2003).
- Giving priority to areas which are most deficient in open space. The Hayes Valley/Western Addition area is currently deficient in open space, especially smaller-scale, neighborhood-serving open space. Acquisition of the Page Street Garden Community Garden would ensure that this important neighborhood space remains available to the public (Determination by City Planning, Case No. 2003.0733R, August 15, 2003).
- Expanding community garden opportunities throughout the city as required by the City General Plan. By ensuring that the Page Street Community Garden remains available to the public, community garden opportunities for the surrounding neighborhood will be preserved (Determination by City Planning, Case No. 2003.0733R, August 15, 2003).

Re: Case No. 2003.0733R
Proposed Acquisition of 438 Page Street Community Garden

Consistency with the Eight Priority Policies

The subject project is found to be consistent with the Eight Priority Policies of the Planning Code Section 101.1 in that:

1. The project would have no adverse effect on neighborhood serving retail uses or opportunities for employment in or ownership of such businesses.

2. The project would have no adverse effect on the City's housing stock or on neighborhood character.

3. The project would have no adverse effect on the City's supply of affordable housing.

4. The project would not result in commuter traffic impeding MUNI transit service or overburdening the streets or neighborhood parking.

5. The project would not adversely affect the industrial or service sectors or future opportunities for resident employment or ownership in these sectors.

6. The project would not adversely affect preparedness against injury and loss of life in an earthquake and would comply with applicable safety standards.

7. The project would have no effect on preservation of landmarks or historic buildings.

8. The project would have no adverse effect on parks and open space or their access to sunlight and vistas.

EXECUTIVE SUMMARY

The Phase I Environmental Site Assessment (ESA) was performed by W&A as authorized by Fugro on November 20, 2003 according to W&A's scope of work, dated November 16, 2003. It is W&A's understanding that this ESA pertains to a potential property acquisition and/or development. The purpose of the Phase 1 ESA was to identify potential environmental concerns associated with the past or present use, generation, storage, or disposal of hazardous materials and/or waste at the Site, and at nearby properties judged to have a potential to affect the Site.

The ESA consisted of reconnaissance of the subject property and immediately adjacent properties; record review and interviews with applicable representatives with the Site, the City and County of San Francisco; historical review of the Site and immediately adjacent properties; and review of regulatory databases regarding the presence or likelihood of recognized environmental conditions (RECs) in general accordance with ASTM Standard E 1527-94. A representative of W&A visited the Site on November 24, 2003.

The property is identified as APN 0841-029, at 438 Page Street, San Francisco, CA, 94102 and is currently used as an urban garden. The lot area contains approximately 3,297 square feet and is zoned RH3 for medium density residential.

W&A purchased an EDR report that searched 45 environmental regulatory databases to identify the Site or surrounding properties within a one mile radius of the Site. The subject site and surrounding properties were not listed on any of the databases researched.

Based upon the findings, W&A identified no recognized environmental conditions for the Site or properties immediately surrounding the property. Based on these findings, it is unlikely that soil and groundwater have been impacted at the Site. Based on the site survey, discussion with knowledgeable persons, and review of available information, W&A recommends no further investigation at this time.

Ward & Associates performed an environmental site assessment of the vacant Parcel located in San Francisco, CA, to investigate and evaluate the environmental condition of the subject site and surrounding properties. Based on the assessment, discussions with knowledgeable parties, and a review of available information, Ward & Associates has not identified any issues of potential environmental concern at the subject site.

Auditor: Approved for Release:

______________________ ______________________

William H. Ward, REA I-06798

Item 3 - File 03-1526

Note: This item was continued by the Finance and Audits Committee at its meeting of December 10, 2003.

Department: Airport

Item: Resolution approving Amendment No. 3 to the Post-Security Master Retail/Duty Free Concession Lease at the Airport's International Terminal Building between DFS Group, L.P. and the City and County of San Francisco, acting by and through its Airport Commission.

Location: Airport's International Terminal

Lessor: City and County of San Francisco, acting by and through its Airport Commission

Lessee: The DFS Group L.P., a Delaware limited partnership ("DFS")

Effective Date of Lease Amendment No. 3: January 1, 2003- December 31, 2003 (see Comment No. 5)

Background: The subject lease agreement with DFS is for "post-security" retail space that is located beyond the security checkpoints in the International Terminal. This lease agreement, which was awarded on the basis of a competitive bid process, and which is a ten-year concession lease, commenced at the opening of the International Terminal in May of 2000 and will expire in

May of 2010. This lease agreement currently covers 57,353 square feet in 29 locations.[1] The lease was approved by the Board of Supervisors on April 5, 1999 (Resolution No. 283-99) and the subsequent Amendments No. 1 and No. 2 were approved by the Board of Supervisors on August 23, 2002 (Resolution No. 552-02).

Rent Payable by DFS To the Airport Under Original Lease:

Under the previously approved and executed concession lease, DFS is responsible for both the direct provision of duty-free[2] retail stores and the subleasing of non-duty free[3] retail stores.[4] The original concession lease required DFS to pay the Airport rent which is the greater of either (a) a Minimum Annual Guarantee (MAG) of $26,100,000[5] or (b) a percentage of annual gross revenues in accordance with the following table:

	Type of Sales	
Annual Gross Revenues	Duty Free	Non-Duty Free
Up to and including $50,000,000 ($4,166,667 monthly)	15%	12%
$50,000,000.01 to $100,000,000 ($4,166,667 to $8,333,333 monthly)	20%	14%
Over $100,000,000 (over $8,333,333 monthly)	25%	16%

Airport Concession Support Program:

On October 30, 2002, the Airport enacted the Airport Concession Support Program, which was previously approved by the Board of Supervisors (File No. 02-1230).

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[1] The original lease covered 55,422 square feet in 57 locations, but was amended in January of 2000 (File No. 99-1869) to cover 57,353 square feet in 29 locations.

[2] "Duty-free" merchandise is defined as goods sold without taxation to international travelers for consumption outside of the United States of America.

[3] "Non-duty free" merchandise is defined as goods that are taxed at the point of sale.

[4] According to Ms. Patricia Maitland of the Airport, and as shown in Attachment I to this report, DFS operated in the International Terminal the duty-free stores as well as some of the non duty-free stores (California Wine Country Gourmet, Cool Tees stores, Leather Report, Mainspring Watches, San Francisco Bay Traders, San Francisco Wine Gourmet, and Soliton). Ms. Maitland states that the remaining non duty-free stores are subleased to other tenants.

[5] The duty-free and non duty-free stores were originally subject to a single MAG of $26,100,000 annually.

Under the Airport Concession Support Program, the MAG for duty-free sales was suspended retroactively from September 11, 2001 through December 31, 2002.[6] While the MAG was suspended during that 15½ month period, the duty-free stores paid rent at the rate of 30 percent of all gross revenues. The Airport Concession Support Program reinstated the MAG for the duty-free sales on January 1, 2003. The MAG for the non-duty free sales was also suspended and this suspension is still in effect and will not be lifted until monthly airline passenger departures exceed 85 percent of the number of departures in 2000 for two consecutive months, which has not occurred to date. Therefore, the non-duty free stores are paying rent at the rate of 12 percent of gross revenues annually because sales have not exceeded $50,000,000 annually. As required by the Concession Support Program, the non-duty free stores have been paying 12 percent of gross revenues since November 1, 2001. The Airport's Concession Support Program specifies that if the MAG for the duty free stores is reinstated before the MAG for the non duty-free stores, the MAG will be separated into a (1) duty-free MAG, and (2) a non duty-free MAG. The duty-free MAG is $23,490,000 annually, or 90 percent of the total MAG of $26,100,000. The non duty-free MAG is $2,610,000, or 10 percent of the total MAG of $26,100,000. As previously stated, the Airport Concession Support Program reinstated the duty-free MAG on January 1, 2003 and the non-duty free MAG is still suspended.

Description: The proposed resolution would approve Amendment No. 3 to the concession lease between DFS and the Airport. Amendment No. 3 would retroactively (1) suspend the duty-free MAG of $23,490,000 with respect to duty-free stores, and (2) establish a new duty-free rent schedule retroactive to January 1, 2003. The proposed resolution states that the duty-free MAG of $23,490,000 would be reinstated on January 1, 2004 or the 1st day of the consecutive month when the monthly gross revenues on duty-free sales equals or exceeds $5,000,000 per month, whichever comes first. Amendment No. 3 also provides that once the duty-free MAG is reinstated, the duty-free

[6] The Airport Concession Program allowed for a suspension of the MAG for the duty-free stores between September 11, 2001 and December 31, 2002 because gross revenues in the duty-free stores did not exceed $5,000,000 for two consecutive months during this time period.

MAG cannot be adjusted or suspended again for the remainder of the current lease, which terminates in May of 2010. However, Amendment No. 3 also states that "on or before January 1, 2004, [the] Director shall review [the] tenant's duty free gross revenues for calendar year 2003 to determine if a further suspension of the tenant's MAG is warranted" (see Comment No. 6). Amendment No. 3 does not alter the status of the non-duty-free stores which continue to pay rent at the rate of 12 percent of gross revenues because the annual revenues are less than $50,000,000.

New Rent Schedules:

The proposed Amendment would establish two new duty-free rent schedules (1) retroactively from January 1, 2003 through December 31, 2003, and (2) from January 1, 2004 through May 1, 2010. The new retroactive duty-free rent schedule from January 1, 2003 through December 31, 2003, would be as follows:

Time Period	Duty-Free
January 1, 2003 – March 31, 2003	31%
April 1, 2003 – December 31, 2003	
Up to $3,000,000 in monthly sales	25%
$3,000,000 and over in monthly sales	31%

The above proposed new duty-free rent schedule would replace the existing lease requirement that DFS pay the greater of either (a) the duty-free MAG of $23,490,000, or (b) a percentage of annual gross revenues noted in the Section above entitled Rent Payable by DFS to the Airport Under Original Lease (see Comment No. 1).

Additionally, under Amendment No. 3, DFS would pay a monthly payment of $312,500 for any 2003 calendar month in which the duty-free gross revenues exceed the duty-free gross revenues by 10 percent or more for the same calendar month of 2002, retroactive to January 1, 2003. According to Ms. Patricia Maitland of the Airport, to date, the duty-free gross revenues in 2003 exceeded gross revenues by 10 percent or more for the same month of 2002 in January of 2003 and based on unauditted revenues figures and projections, this may also occur in October and December of 2003. Therefore, this provision

is projected to provide for an additional payment from DFS to the Airport in calendar year 2003 of $312,500 to $937,500 ($312,500 times 3 months).

As noted above, the proposed Amendment No. 3 also provides for a second new rent schedule from January 1, 2004 through May 1, 2010 which would require DFS to pay the Airport the greater of either (a) a duty-free MAG of $23,490,000 or (b) higher percentage of annual gross revenues shown below as compared to the percentages of annual gross revenues under the existing lease:

Annual Gross Revenues	Existing Lease for Duty-Free	Proposed Lease Amendment for Duty-Free as of January 1, 2004
Up to and including $50,000,000 ($4,166,667 monthly)	15%	20%
$50,000,000.01 - $100,000,000 ($4,166,667 to $8,333,333 monthly)	20%	25%
Over $100,000,000 (over $8,333,333 monthly)	25%	30%

As shown above, the proposed lease Amendment would also establish a new rent schedule from January 1, 2004 to May 1, 2010, which would retain the MAG of $23,490,00 and increase the percentage of annual gross revenues.

Comments:

1. Attachment II to this report, provided by Ms. Maitland, shows the duty-free stores gross monthly revenues[7], and rent owed and paid by DFS to the Airport for the duty-free stores from December 2000 through December 2003. Based on the data in Attachment II, under the existing lease Agreement, the duty-free stores would owe the duty-free MAG between January 1, 2003 and December 31, 2003 of $23,490,000 ($1,957,500 monthly) because the duty-free MAG would be greater than a percentage of annual gross revenues. As shown in Attachment II, under the proposed lease Amendment, the duty-free stores

[7] Attachment II details actual gross revenues for the duty-free stores from January 2003 through October 2003 and projected gross revenues in November and December 2003.

would owe a total of approximately $12,092,975 (including January payment of $312,500) between January 1, 2003 and December 31, 2003, which is $11,397,025 or 48.5 percent less in rent than the duty-free MAG which would be owed under the existing lease agreement. The Budget Analyst notes that under the proposed lease Amendment, DFS could owe an additional $625,000 ($312,500 for November and $312,500 for December) depending on whether gross revenues exceed by 10 percent gross revenues for the same months of 2002.

2. According to Mr. David Pfeiffer of the Airport, and as described in Attachment III to this report, a rent reduction of an estimated $11,397,025, or 48.5 percent, is warranted for the duty-free stores for calendar year 2003 because "duty free operations are completely tied to international passenger traffic, which has been severely and disproportionately effected by SARS [Severe Acute Respiratory Syndrome] and the Iraq war." Mr. Pfeiffer further notes that "DFS sought and was given economic relief at Honolulu and Los Angeles International Airports."

The Budget Analyst reviewed the Honolulu and Los Angeles International (LAX) Airports duty-free rent reduction agreements with DFS. According to Mr. Alan Chock of the Honolulu Airport, the Honolulu Airport <u>did not</u> suspend the MAG of $60,000,000 for DFS, but rather terminated and competitively bid the concession contract in September of 2003. Mr. Chock states that DFS was the only respondent to the request for proposals (RFP) and the Honolulu Airport awarded DFS the concession agreement in October of 2003. This award reflects a MAG of $40,000,000, which is $20,000,000 or 33.3 percent less in rent than the original concession agreement which had a MAG of $60,000,000. As noted above, San Francisco is recommending a 48.5 percent reduction in rent as compared to the 33.3. percent reduction in rent at the Honolulu Airport.

According to Ms. Rachel Miller of LAX, the terms of the LAX rent reduction program for DFS are as follows: (1) DFS is required to pay to LAX the full MAG of $37,000,000 in 2002, (2) the MAG is suspended for

calendar year 2003 through 2005, and (3) DFS will pay the LAX rent based on a percentage of gross revenues, 23 percent in 2003, 27 percent in 2004, and between 28 and 39 percent in 2005 depending on sales.[8] Ms. Miller states that the final rent reduction for DFS will not be known until actual gross revenues through 2005 are known.

3. Attachment IV to this report, also provided by Mr. Pfeiffer provides additional information regarding what the Airport believes would occur should the Board of Supervisors not provide the DFS with an approximately $11,397,025 or 48.5 percent rent reduction for calendar year 2003. Mr. Pfeiffer advises that:

> "If the Board of Supervisors fails to grant relief from the stipulated $23,500,000 [$23,490,000] *duty free sales* minimum annual guarantee, the effective concession rent in 2003 would exceed 60% of sales. A duty free concession rent at this level would be unprecedented in the duty free industry and would represent what Duty Free Stores (DFS) has stated would be untenable burden for them to handle, as it would be for any other duty free concessionaire."

According to Mr. Pfeiffer, and as described in Attachment V to this report, "DFS has indicated that the maximum rent it could pay as a percentage of gross revenues is 31 percent."

4. However, the Budget Analyst notes that the proposed Amendment would reduce duty-free rent to 25 percent of gross revenues retroactively from April 1, 2003 to December 31, 2003 if duty-free gross revenue are $3,000,000 or less, which is 6 percent less than the 31 percent that DFS has indicated to the Airport that DFS could pay. Based on the gross revenue data provided by the Airport as shown in Attachment II, under the proposed lease Amendment, DFS would retroactively pay 25 percent of gross revenues in April, May and June of 2003, which is 6 percent less than the 31 percent that DFS has indicated it could pay. Further, the data provided by the Airport in Attachment II shows that the

[8] Ms. Miller advises that DFS would be required in 2005 to pay 28 percent for gross revenues of $75,000,000 or less, 32.5 percent for $75,000,001 to $100,000,000, 36.5 percent for $100,000,001to-$125,000,000, and 39 percent for $125,000,001 and above.

duty-free stores have actually paid in excess of 31 percent of gross revenues rent. For example, between December 2000 and August 1, 2001, rent paid by DFS for the duty-free stores averaged 45 percent of gross revenues.

Therefore, the Budget Analyst recommends that the proposed rent schedule for January 1, 2003 to December 31, 2003 be revised for the period of April 1, 2003 to December 31, 2003 from 25 percent of gross revenues up to $3,000,000 to 31 percent of gross revenues up to $3,000,000, an increase of 6 percent of gross revenues. As shown in Attachment II, if DFS paid 31 percent of all gross revenues the total rent payable for 2003 would be $12,560,590, or $467,615 more than the $12,092,975 proposed rent payable in 2003 under the subject lease amendment.

5. The Budget Analyst requested an explanation of why the Airport is requesting Board of Supervisors retroactive approval of the proposed lease amendment approximately 11 months after the proposed effective date, January 1, 2003. Attachment III to this report, provided by Mr. David Pfeiffer of the Airport states the following:

> "DFS first approached the Airport for MAG relief in January 2003; however, staff felt it important to verify that the passenger downturn adversely impacted DFS sales. Additionally, staff waited for HNL (Honolulu International Airport) and LAX (Los Angeles International Airport) to finish its relief package for DFS, as well as verifying the final impact of the Iraq War and SARS (Severe Acute Respiratory Syndrome) before finishing negotiations with DFS. They were just completed and approved by the Airport Commission last month."

However, as shown in Attachment II, the Airport has allowed DFS to pay the reduced rent since January of 2003, without first obtaining approval of the Board of Supervisors. The Budget Analyst further notes that this retroactive request for an approximately $11,397,025 or 48.5 percent reduction limits the options of the Board of Supervisors because DFS has benefited from a 48.5 percent rent reduction for the past 11 months without

first obtaining approval from the Board of Supervisors for such a rent reduction.

6. As previously stated, the proposed Amendment requires that the duty-free MAG be reinstated on January 1, 2004 or the 1st day of the consecutive month of the monthly Gross Revenues on duty free sales equals or exceeds $5,000,000 per month, whichever occurs first. Based on the Airport's projections shown in Attachment II to this report, the duty-free MAG would be reinstated January 1, 2004. The proposed Amendment also provides that once the duty-free MAG is reinstated, the duty-free MAG cannot be adjusted or suspended.

However, the proposed Amendment states that "on or before January 1, 2004, the Director would review DFS duty free Gross Revenues for calendar year 2003 to determine if a further suspension of the DFS MAG is warranted." According to Ms. Adrienne Go of the City Attorney's Office, suspending the duty-free MAG beyond December 31, 2003 would require approval from the Board of Supervisors regardless of the determination of the Director of the Airport. Ms. Go advises that while such approval of the Board of Supervisors is not explicitly stated in the proposed Amendment, such approval is required by the City's Charter.

7. As previously stated and as detailed in Attachment V, "DFS has indicated that the maximum rent it could pay as a percentage of gross revenues is 31 percent." Based on the Budget Analyst's analysis of the data provided by the Airport in Attachment II, in order for DFS to pay the duty-free MAG in 2004, the duty free stores would need to increase monthly gross revenues from the average of $3,292,497 in 2003 to a monthly average of $6,314,516 or by 91.8 percent. The Budget Analyst questions why the Airport believes that DFS could pay the duty-free MAG in 2004. In response to this point, as shown in Attachment V to this report, provided by Ms. Maitland, the Ms. Maitland states that:

> "In the event circumstances change in 2004, the Airport believes it is more fiscally responsible to contain the rent relief to the current Lease Year. For example, if there is an increase in passengers in the

2004 Lease Year, which could have a positive effect on duty free gross revenues, the Airport would not want to be committed to a rent reduction negotiated in 2003."

Based on this response, the Budget Analyst believes that the Airport will likely make another retroactive request for the Board of Supervisors to retroactively provide for a duty-free MAG suspension for calendar year 2004. Therefore, the Budget Analyst recommends that the proposed resolution be amended to specifically disallow any further retroactive requests of the Board of Supervisors for a MAG reduction or suspension after January 1, 2004 in order to prevent the Airport from taking such action prior to receiving Board of Supervisors approval.

8. In summary, the proposed resolution would retroactively reduce DFS's duty-free rent payable to the Airport from $23,490,000 to $12,092,975, (see Comment No. 1) a reduction of $11,397,025 or 48.5 percent in calendar year 2003. However, according to DFS's statements to the Airport, the DFS could pay a rent of 31 percent of gross monthly revenues which would equal $12,560,590 or $467,615 more than the $12,092,975 currently proposed (see Comment No. 4). The proposed lease Amendment would also establish a new rent schedule from January 1, 2004 to May 1, 2010, which would retain the MAG of $23,490,00 and increase the percentage of annual gross revenues.

The Budget Analyst noted in Comment No. 5 above that the Airport has also allowed DFS to suspend the duty-free MAG payments and pay the reduced rents, which are the subject of the proposed lease Amendment since January of 2003, without first obtaining approval of the Board of Supervisors. Furthermore, as noted in Comment No. 7 above, based on the Airport's data provided to the Budget Analyst, the Budget Analyst believes that the Airport will likely request that the Board of Supervisors again retroactively provide for a duty-free MAG suspension for calendar year 2004. Therefore, the Budget Analyst makes the following recommendations.

Recommendations:

1. In accordance with Comment No. 4, direct the Airport to revise the rent schedule for April 1, 2003 through December 31, 2003 in the proposed Amendment from 25 percent of gross revenues up to $3,000,000 to 31 percent of gross revenues up to $3,000,000, which would result in additional rent of approximately $467,615 to the Airport.

2. In accordance with Comment No. 7, amend the proposed resolution to specifically disallow any further retroactive requests for a MAG reduction or suspension after January 1, 2004 until the Board of Supervisors approval is first granted.

3. Approval of the proposed resolution, as amended, is a policy matter for the Board of Supervisors.

	Sq.Ft.		DBE
DFS Group, LLP		55,422	
Altitunes (Amy Nye) [Formerly Esprit]	2,918		Yes
California Wine Country Gourmet	1,583		
Cool Tees@sfo.fun (A) (temporarily closed)	350		
Cool Tees@sfo.fun (G)	300		
DFS Galleria (A)	8,850		
DFS Galleria (G)	13,046		
DFS Satellite (A)	1,670		
DFS Satellite (G)	1,455		
Pacific Outfitters (RDG) [Formerly Here to There]	970		Yes
Leather Report	1,746		
Mainspring Watches	500		
San Francisco Bay Traders (A)	1,464		
San Francisco Bay Traders (G)	1,762		
San Francisco Wine Gourmet	1,464		
SFO Treats (PGC Sublessee)	1,034		Yes
Soliton	1,267		
To Your Health (temporarily closed)	1,500		
Subleases:	13,543		
Pacific Gateway Concessions, LLC & LTD			Yes
Embardero Treats	*1,222*		
Pacific Gateway Gift & News (A)	*982*		
Pacific Gateway Gift & News (G)	*906*		
Pacific Gateway News (A) [Combining w/ SFO treats space]	*474*		
Pacific Gateway News (G)	*892*		
Pacific Gateway News (G)	*375*		
Kids City [Formerly US Sporting Style]	*1,027*		Yes
RDG Concessions			Yes
Pacific Outfitters	*709*		
SF Time	*1,768*		
Sunset Shades	*500*		
Sephora			
Sephora (North Shoulder, ITB)	*2,190*		
Sephora (South Shoulder, ITB)	*2,498*		

Shaded cells represent tenants of the duty-free shop

Source: Airport
11/19/03

DFS Group, LLP

Tenant No.:	11083
Index Code:	AIROPRIT
SubOjbect:	37512

	Gross DUTY FREE Sales	Rent Owed	Rent Paid			
December-00	$2,810,341.86	$1,351,278.06	$1,351,278.06			
January-01	$3,783,611.20	$1,904,073.75	$1,904,073.75			
February-01	$3,891,352.45	$1,904,073.75	$1,904,073.75			
March-01	$4,172,066.11	$1,904,073.75	$1,904,073.75			
April-01	$3,700,463.28	$1,904,073.75	$1,904,073.75			
May-01	$5,041,485.73	$1,904,073.75	$1,904,073.75			
June-01	$4,674,567.40	$1,904,073.75	$1,904,073.75			
July-01	$4,213,685.40	$1,904,073.75	$1,904,073.75			
August-01	$5,368,585.79	$1,904,073.75	$1,904,073.75			
September-01	$3,196,868.77	$935,114.44	$935,114.44			
October-01	$2,451,617.09	$462,904.27	$462,904.27			
November-01	$2,393,742.97	$448,435.74	$448,435.74			
December-01	$2,895,037.89	$573,759.47	$573,759.47			
January-02	$2,525,730.26	$481,432.57	$481,432.57			
February-02	$2,688,934.08	$522,233.52	$522,233.52			
March-02	$3,072,838.25	$618,209.56	$618,209.56			
April-02	$2,879,032.35	$863,709.71	$863,709.71			
May-02	$3,682,267.22	$1,104,680.17	$1,104,680.17			
June-02	$3,426,668.46	$1,028,000.54	$1,028,000.54			
July-02	$3,345,290.48	$1,003,587.14	$1,003,587.14			
August-02	$3,837,268.56	$1,151,180.57	$1,151,180.57			
September-02	$3,677,001.66	$1,103,100.50	$1,103,100.50			
October-02	$3,441,349.12	$1,066,818.23	$1,066,818.23			
November-02	$3,391,977.07	$1,051,512.89	$1,051,512.89			
December-02	$3,230,144.41	$1,001,344.76	$1,001,344.76			
		Rent due under existing lease agreement	Rent Paid	Rent payable under proposed amendment	Rent payable if at 31 percent of gross revenues	
January-03	$3,249,317.77	$1,957,500.01	$1,007,288.51	$1,007,288.51	$1,007,288.51	
Jan. Bonus Pymt.			$312,500.00	$312,500.00	$312,500.00	
February-03	$2,843,444.65	$1,957,500.01	$881,467.84	$881,467.84	$881,467.84	
March-03	$3,021,637.19	$1,957,500.01	$936,707.53	$936,707.53	$936,707.53	
April-03	$2,236,853.13	$1,957,500.01	$559,213.29	$559,213.29	$693,424.47	
May-03	$2,641,752.79	$1,957,500.01	$660,438.20	$660,438.20	$818,943.36	
June-03	$2,914,979.61	$1,957,500.01	$728,744.90	$728,744.90	$903,643.68	
July-03	$3,596,146.55	$1,957,500.01	$1,114,805.43	$1,114,805.43	$1,114,805.43	
August-03	$3,909,456.71	$1,957,500.01	$1,211,931.58	$1,211,931.58	$1,211,931.58	
September-03	$3,714,160.23	$1,957,500.01	$1,151,389.67	$1,151,389.67	$1,151,389.67	
October-03	**$3,893,600.00**	$1,957,500.01		**$1,207,016.00**	$1,207,016.00	
November-03	***$3,694,967.00***	$1,957,500.01		***$1,145,439.77***	$1,145,439.77	
December-03	***$3,793,652.00***	$1,957,500.01		***$1,176,032.12***	$1,176,032.12	
Total for 2003		$23,490,000.12		$12,092,974.84	$12,560,589.97	###
			rent reduction	$11,397,025.28		

Bolded text is unauditted revenue
Italicized text indicates forecasted figures

Source: Airport, December 4, 2003

San Francisco International Airport

P.O. Box 8097
San Francisco, CA 94128
Tel 650.821.5000
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October 8, 2003

Elaine Forbes
Budget Analyst's Office
City & County of San Francisco
City Hall, Room 263
San Francisco, CA 94102

Re: Amendment No. 3 to DFS Group, L.P.'s Post- Security Master Retail/Duty Free Lease No. 99-0035

Dear Elaine:

Although the DFS MAG was reinstated January 1, 2003, they have been unable to pay it and instead have been paying percentage rent. The duty Free MAG for calendar year January 1 through December 31, 2003 is $23.5 million.

DFS business at SFO is unlike any other tenant. It is both direct operator and a master tenant. Its lease covers 29 different facilities, yet 90% of the MAG is allocated to the duty free operations. The duty paid facilities are all subleased to DBE tenants. The duty free operations are completely tied to international passenger traffic, which has been severely and disproportionately effected by SARS and the Iraq war.

DFS sought and was given economic relief at Honolulu and Los Angeles International Airports. The presence of a well run duty free operations is a valued service to international passengers and is generally considered an important feature at major international airports.

In order to avoid the potential of empty duty free retail space during the rebid process, as well as the loss of business to DBE sublessees if DFS were to shut down due to their inability to pay their MAG, we have negotiated a 12 month interim program to continue the MAG suspension, but also require additional payments beyond the percentage rent if sales in each month increase by at least 10% over the previous year.

The DBE subleases offer many of the most basic necessities of the traveling public, such as newspapers, magazines, aspirins and band-aids. Disruption of those subleases would have an adverse impact on the traveling public.

Elaine Forbes
October 8, 2003
Page 2

For calendar year 2003, staff forecast that this proposed plan would result in rents to the Airport in the range of approximately $11.4 to $14.6 million. By comparison, in Honolulu the $60 million MAG was recently dropped to $40 million and could go as low as $34 million if sales there do not improve. In Los Angeles the DFS lease was also significantly restructed, eliminating the MAG of $37 million for the years 2003 until the end of the current lease in May 2005. The percentage rent there was set 23% in 2003, 27% in 2004, and a tiered rate commencing at 28%.

DFS first approached the Airport for MAG relief in January 2003; however, staff felt it important to verify that the passenger downturn adversely impacted DFS' sales. Additionally, staff waited for HNL and LAX to finish its relief package for DFS, as well as verifying the final impact of the Iraq War and SARS before finishing negotiations with DFS. They were just completed and approved by the Airport Commission last month.

Please contact me with any other questions on this amendment.

Sincerely,

David W. Pfeiffer
Associate Deputy Director
Revenue Development

SFO

San Francisco International Airport

October 30, 2003

P.O. Box 8097
San Francisco, CA 94128
Tel 650.821.5000
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www.flysfo.com

Mr. Harvey Rose
Office of the Budget Analyst
1390 Market Street, Suite 1025
San Francisco, CA 94102

Subject: Amendment No. 3 to the DFS Group, L.P. Post-Security Master Retail/Duty Free Concession in the New International Terminal Building Lease No. 99-0035 at San Francisco International Airport

Dear Mr. Rose:

The combined impact of the residual effects of September 11,2001 and the more immediate effects of the war in Iraq and the SARS outbreak will hold *duty free sales* at San Francisco International Airport to an estimated $38,900,00 based upon current trend. If the Board of Supervisors fails to grant relief from the stipulated $23,500,000 *duty free sales* minimum annual guarantee, the effective concession rent in 2003 would exceed 60% of sales. A duty free concession rent at this level would be unprecedented in the duty free industry and would represent what Duty Free Stores (DFS) has stated would be an untenable burden for them to handle, as it would be for any other duty free concessionaire. They have also sought and received relief at Los Angeles World Airports (LAX) and Honolulu International Airport (HNL) due to the same issues.

As noted in the earlier letter of October 8th, LAX and HNL, two Pacific Rim airports where DFS operates, provided extensive, multi-year rent relief to DFs. Those airports recognized that the international market has fundamentally changed and that extensive relief was warranted and required to keep Duty Free concession in DFS in operation.

In discussions with DFS they have stated that failing to provide appropriate relief from this unsustainable concession rent burden would have both immediate and long-term consequences for the City and County of San Francisco, San Francisco International Airport, the Airport's patrons and of course, DFS. According to DFS, failure to provide relief would at minimum, result in the following:

- DFS would be unable to continue to maintain the high level of customer service and product assortment that patrons of San Francisco International Airport, a major Asian gateway, both require and deserve. Store presentations and appearance would also suffer since investment in store inventory, infrastructure and facilities could not be maintained at their present high levels.

- DFS management and employees, many of whom have long-tenure given DFS's long service as the duty free concessionaire at San Francisco International Airport, would face immediate lay-offs, with little or no prospect of recall. DFS

Mr. Harvey Rose
October 30, 2003
Page 2

has its worldwide headquarters in San Francisco and employs over 300 people in its downtown offices and over 100 staff at SFO.

- DFS may be forced to resign from this concession, forcing the City and Airport to search for a new operator during a period when a Request for Proposal is likely to result in offers that fall below those that would be in place with DFS.

If approved by the Board of Supervisors, the difference that would be paid by DFS under this relief package between the MAG ($23,400,000) and the projected rent collected under the relief ($11,938,173) would be $11,461,827. This could be decreased if sales warrant additional lump sum payments of $312,500 for sales in November and December.

The world events that have fundamentally altered 2003 travel patterns at San Francisco International Airport require this relief if the foundation of DFS is to remain sound. DFS believes this relief is warranted, appropriate and necessary to assure that they can continue to provide the current high level of duty free facilities, product and services currently offered to Airport patrons. The relief package was carefully considered and approved by the Airport Commission and is substantially less far reaching than the relief given by LAX and HNL.

Very truly yours,

David W. Pfeiffer
Associate Deputy Director
Revenue Development

cc: John L. Martin
Leo Fermin

TO: Harvey Rose, Budget Analyst
FROM: Patrica Maitland, Airport
DATE: Wednesday, November 19, 2003

RE: Responses to Budget Analyst Questions

1. If DFS cannot pay the duty-free MAG in the current calendar year, why does the Airport believe DFS will be able to pay the duty-free MAG effective January 1, 2004?

In the event circumstances change in 2004, the Airport believes it is more fiscally responsible to contain the rent relief to the current Lease Year . For example, if there is an increase in passengers in the 2004 Lease Year, which could have a positive effect on duty free gross revenues, the Airport would not want to be committed to a rent reduction negotiated in 2003.

2. What is a reasonable maximum percent of gross revenues for a duty-free concession lease?

DFS has indicated that the maximum rent it could pay as a percentage of gross revenues is 31%.

3. The original lease shows a total of 52,000 square feet with 27 locations, and an amendment shows 57,353 in 29 locations, but your spreadsheet shows 55,422 in 29 locations. What happened?

The original lease Exhibit A lists 27 retail facilities for a total of 53,451 square feet plus two "Additional Facilities" comprised of the Unisex Apparel Store (Esprit, CN10) and the Apothecary Store (To Your Health, CS70) for 2918 square feet and 1648 square feet respectively, for a total of 29 locations and 58,017 square feet.

Exhibit A of the Lease was drafted approximately 2 years before the actual build out of the premises. The following changes that have occurred over the course of the lease term, account for 2360 sq.ft. of space. The 235 sq.ft. delta is the result of minor design and construction changes that occurred during actual build out and were not recorded in CAD drawings.

Bay Traders is shown on the lease as 2497 sq.ft., actual build out size was 1464 sq.ft. for a difference of 1033 sq. ft.
Mainspring is shown on the lease as 1267 sq.ft., actual build out size was 500 sq.ft. for a difference of 767 sq. ft.
AW60 & AW70 combined premises and show on the lease as 982 sq.ft. and 1034 sq.ft. for a total of 2016 sq.ft., actual build out size is 1456 sq.ft. for a difference of 560 sq.ft.

Item 4 – File 03-1506

Department: Office of Public Finance
San Francisco Unified School District (SFUSD)

Item: Ordinance appropriating $29,480,000 of General Obligation Bond (Educational Facilities Bonds, 1997 – San Francisco Unified School District (SFUSD) Series 2003B for various capital improvement projects at SFUSD facilities.

Amount: $29,480,000

Source of Funds: General Obligation Bonds (Educational Facilities Bonds, 1997 – San Francisco Unified School District) Series 2003B.

Description: On June 3, 1997, San Francisco voters approved Proposition A, a $140,000,000 General Obligation Bond measure (1997 Education Facilities Bonds) of which $90,000,000 was designated to provide funds for various capital improvement projects for the San Francisco Unified School District (SFUSD). The balance of these funds of $50,000,000 ($140,000,000 less $90,000,000) was designated for various San Francisco Community College District capital improvement projects. On March 2, 1998, the Board of Supervisors authorized the issuance of the $90,000,000 in SFUSD bonds (File 170-96-12.3), and on March 1, 1999, the Board of Supervisors authorized the sale of $60,520,000 out of the $90,000,000 in such General Obligation Bonds (Series 1999B Bonds), which were sold on June 29, 1999 (File 99-0200). On January 7, 2002, the Board of Supervisors authorized the sale of the remaining $29,480,000 ($90,000,000 less $60,520,000) in the SFUSD General Obligation Bonds (the Series 2003B Bonds, formerly the Series 2002 Bonds), which were sold on July 9, 2003 (File 01-2190).

According to Ms. Karen Ribble of the Office of Public Finance, the total Bond proceeds for Educational Facility Bonds, Series 2003B are in the amount of $29,837,569, of which $29,480,000 is available for appropriation to SFUSD and $357,569 is for financing and related costs.

Ms. Ribble notes that only the par amount of $29,480,000 is available for SFUSD capital improvement projects less the bond issuance costs.

The subject supplemental appropriation would appropriate $29,480,000, including $29,345,575 for capital improvement projects at various SFUSD facilities and $134,425 for the bond issuance costs. According to Ms. Ribble, the bond issuance costs include fees for rating agencies, financial advisors and bond counsel and City costs including printing, and services of the City Attorney and the Office of Public Finance.

Budget: The Attachment to this report, provided by the SFUSD, identifies 137 capital improvement projects and budget totals for such projects, for various SFUSD facilities at a total estimated cost of $139,241,099. The subject requested funds would provide $29,345,575 to pay for a portion of the 137 projects.

Comments:

1. According to Mr. George Kozitza of the SFUSD, $12,892,237 of the $29,345,575 in Educational Facility Bonds, Series 2003B proceeds would be used to reimburse other SFUSD funds previously advanced by the SFUSD, including the SFUSD's General Fund and grant funds, for the SFUSD capital improvement projects.

2. As of the writing of this report, the SFUSD has only provided the Budget Analyst with total estimated amounts for each capital improvement project but has not provided the Budget Analyst with budget details for the 137 projects, which as noted above, have a total estimated cost of $139,241,099 as shown in the Attachment.

Recommendation: Because the SFUSD has not provided the budget details for each project as noted in Comment No. 2 above, the Budget Analyst considers approval of the proposed ordinance to be a policy matter for the Board of Supervisors.

SFUSD

George A. Kozitza, Ed.D.
Chief Business Officer
Ph. (415) 241-6542 • FAX # 241-6482
gkozitz@muse.sfusd.edu

San Francisco Unified School District 135 Van Ness Avenue San Francisco California 94102-5299

December 10, 2003

Mr. Edward Harrington
Controller
City & County of San Francisco
1 Dr. Carlton B. Goodlett Place, Room 316
San Francisco, CA 94102

The Honorable Susan Leal
City Treasurer
City & County of San Francisco
1 Dr. Carlton B. Goodlett Place, Room 140
San Francisco, CA 94102

Ms. Monique Moyer
Director Public Finance
City & County of San Francisco
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Mr. Harvey Rose
Budget Analyst
City & County of San Francisco
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Mr. Sam Yockey
c/o Controller's Office
City & County of San Francisco
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Ms. Gloria Young
Clerk of the Board of Supervisors
City & County of San Francisco
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco, CA 94102

Dear Colleagues:

After reviewing the document sent to your office concerning the Proposition A Bond Appropriation request we have discovered a few errors in transcription on both our spreadsheet and our cover memo. The following notes are meant to both clarify and correct and questions posed by Harvey Rose's office.

Question #1: Revenue "received" from the following fund sources:
$60,520,000 from first release of '97 Prop A Bond funds;
$49,241,099 from State Leroy Green projects;
$12,892,237 from other SFUSD fund sources.

Question #2:

a. See footnote 2 and description of fund sources. SFUSD Funds used include Funds 01, 21, 25, 36.
b. The amount to be released or reimbursed is $29,480,000

Question #3:

There was an arithmetic correction made on the spreadsheet, Actual Expense is $122,653,336.

Attached is the corrected spreadsheet with correction that should coincide with the answers above. Do not hesitate to contact me should you have any additional questions or concerns.

Sincerely,

George A. Kozitza
Chief Business Officer

San Francisco Unified School District
FUNDING SUMMARY

Proposition A Financial Report

Project Number	School	Expenditures (1) Budget	Expenditures Actual	Expenditures Balance	Revenue (1) Budget	Revenue (2) Receved	Revenue (3) Balance
1683	A.P. Giannini MS	700,737	351,416	349,321	700,737	700,737	-
1408	**A. Lincoln HS**	6,140,705	5,288,016	852,689	6,140,705	6,010,303	130,402
2037	Alamo ES	259,659	6,476	253,183	259,659	4,449	255,210
1589	Alice Fong Yu NSB	6,194,277	4,445,518	1,748,759	6,194,277	5,460,455	733,822
1606	Alvarado ES	274,188	324,612	(50,424)	274,188	274,188	-
0119	**Aptos MS**	2,898,515	2,355,129	543,386	2,898,515	2,429,007	469,508
1593	Argonne CC NSB	3,000,000	939,189	2,060,811	3,000,000	2,283,727	716,273
0122	Argonne ES	105,732	259,831	(154,099)	105,732	105,732	-
PA_07	**Balboa HS**	2,450,373	333,950	2,116,423	2,450,373	907,660	1,542,713
1722	Ben Franklin MS	447,164	169,942	277,222	447,164	447,164	-
1620	Buena Vista ES	195,107	108,482	86,625	195,107	169,822	25,285
10104	Burnett CC	42,907	2,229	40,678	42,907	1,570	41,337
1621	Cabrillo ES	223,335	182,156	41,179	223,335	223,335	-
1713	Cesar Chevez	174,337	32,431	141,906	174,337	174,337	-
1714	Chinese Ed Ctr ES	187,012	14,386	172,626	187,012	169,392	17,620
1726	C. Lilienthal (3-8)	215,901	158,676	57,225	215,901	215,901	-
1633	**C. Lilienthal (K-2)**	4,000,000	2,770,702	1,229,298	4,000,000	3,515,494	484,506
1622	Clarendon ES	201,267	147,268	53,999	201,267	201,267	-
1623	Cleveland ES	223,335	144,697	78,638	223,335	223,335	-
2038	Commodore Sloat ES	242,415	6,913	235,502	242,415	4,220	238,195
2040	Daniel Webster	224,386	16,130	208,256	224,386	13,517	210,869
1715	Downtown HS	425,940	293,208	132,732	425,940	381,506	44,434
1705	Dr. Charles Drew ES	295,982	21,521	274,461	295,982	279,960	16,022
1708	Dr. Martin Luther King MS	251,257	18,211	233,046	251,257	19,233	232,024
0224	**Cobb ES**	194,277	25,918	168,359	194,277	194,277	-
1619	E.R. Taylor ES	521,453	185,888	335,565	521,453	521,453	-

San Francisco Unified School District
FUNDING SUMMARY

Proposition A Financial Report

		Expenditures			Revenue		
Project Number	School	(1) Budget	Actual	Balance	(1) Budget	(2) Receved	(3) Balance
1551	Edison ES	288,718	18,285	270,433	288,718	288,718	-
1550	El Dorado ES	500,760	947,705	(446,945)	500,760	500,760	-
0232	Everett MS	1,597,249	1,455,248	142,001	1,597,249	1,597,249	-
1607	Fairmount ES	252,394	178,497	73,897	252,394	252,394	-
10106	Filipino Ed Ctr CC	135,592	10,155	125,437	135,592	2,801	132,791
pa12	Florence Martin CC	73,348	50,780	22,568	73,348	73,348	-
pa15	F.S. Key ES	891,497	677,026	214,471	891,497	891,497	-
PA_17	Francisco MS	2,127,087	1,565,069	562,018	2,127,087	1,476,440	650,647
2041	Frank McCoppin ES	223,335	5,210	218,125	223,335	2,966	220,369
PA_20	Galileo HS	9,040,839	7,168,897	1,871,942	9,040,839	6,983,516	2,057,323
1608	Garfield ES	216,071	179,741	36,330	216,071	216,071	-
1636	G. Moscone ES	56,886	684,569	(627,683)	56,886	56,886	-
10089	George Peabody ES	194,277	4,119	190,158	194,277	2,580	191,697
1706	George Washington Carver ES	252,394	19,172	233,222	252,394	118,291	134,103
1561	George Washington HS	2,522,020	1,345,547	1,176,473	2,522,020	2,406,882	115,138
pa21	Glen Park ES	207,097	-	207,097	207,097	207,097	-
pa22	Gloria R. Davis MS	307,723	65,149	242,574	307,723	307,723	-
1609	Golden Gate ES	259,659	178,384	81,275	259,659	259,659	-
10105	Gordon J. Lau CC	102,286	3,495	98,791	102,286	2,358	99,928
2039	Gordon J. Lau ES	160,414	47,397	113,017	160,414	160,414	-
10090	Grattan ES	230,599	14,718	215,881	230,599	3,063	227,536
0214	Guadalupe ES	208,806	78,476	130,330	208,806	89,447	119,359
1709	Harvey Milk ES	179,747	11,844	167,903	179,747	179,747	-
1556	Herbert Hoover MS	729,590	534,950	194,640	729,590	729,590	-
1728	Hillcrest ES	282,623	177,732	104,891	282,623	282,623	-
1719	Horace Mann MS	386,705	122,053	264,652	386,705	386,705	-

San Francisco Unified School District

FUNDING SUMMARY

Proposition A Financial Report

		Expenditures			Revenue		
Project Number	School	(1) Budget	Actual	Balance	(1) Budget	(2) Receved	(3) Balance
1624	Ida B Wells HS	577,778	338,652	239,126	577,778	577,778	-
1610	ISA HS	280,318	143,749	136,569	280,318	280,318	-
1585	McAteer HS	1,993,838	828,568	1,165,270	1,993,838	1,945,047	48,791
1704	James Denman MS	522,155	323,124	199,031	522,155	439,247	82,908
1716	James Lick MS	758,258	392,994	365,264	758,258	711,594	46,664
1611	Jean Parker ES	111,773	-	111,773	111,773	111,773	-
10107	Jefferson Annex CC	84,216	2,118	82,098	84,216	2,118	82,098
pa26	Jefferson ES	230,599	58,487	172,112	230,599	230,599	-
10108	John McLaren CC	103,789	88,202	15,587	103,789	2,378	101,411
1707	John Muir ES	325,041	30,046	294,995	325,041	325,041	-
10091	John O'Connell (M. Twain) HS	240,795	357,798	(117,003)	240,795	80,795	160,000
10227	**John O'Connell HS**	19,720,032	26,441,882	(6,721,850)	19,720,032	19,720,032	-
10092	John Swett ES	212,244	5,049	207,195	212,244	3,819	208,425
1613	John Yehall Chin ES	194,277	171,252	23,025	194,277	194,277	-
1720	Jose Ortega ES	259,659	67,436	192,223	259,659	92,934	166,725
1700	Junipero Serra ES	179,747	3,006	176,741	179,747	179,747	-
10109	Junipero Serra Annex CC	86,019	13,948	72,071	86,019	2,142	83,877
1612	Lafayette ES	288,718	173,581	115,137	288,718	288,718	-
pa29	Laguna Golden Gate CC	63,201	-	63,201	63,201	63,201	-
10093	Lakeshore ES	232,879	7,670	225,209	232,879	4,093	228,786
pa31	Lawton ES	293,955	944,879	(650,924)	293,955	293,955	-
1701	Leonard Flynn ES	281,453	223,086	58,367	281,453	281,453	-
1702	Longfellow ES	245,129	21,156	223,973	245,129	245,129	-
1590	**Lowell HS**	19,256,945	11,043,224	8,213,721	19,256,945	14,614,672	4,642,273
1725	**Luther Burbank MS**	840,125	620,973	219,152	840,125	796,409	43,716
1717	Malcolm X ES	245,129	16,157	228,972	245,129	245,129	-

San Francisco Unified School District
FUNDING SUMMARY

Proposition A Financial Report

Project Number	School	Expenditures (1) Budget	Expenditures Actual	Expenditures Balance	Revenue (1) Budget	Revenue (2) Receved	Revenue (3) Balance
1682	Marina MS	830,267	444,793	385,474	830,267	637,547	192,720
1630	Marshall ES	187,012	133,304	53,708	187,012	187,012	-
10094	McKinley ES	223,335	6,210	217,125	223,335	3,966	219,369
pa33	Miraloma ES	223,753	665,715	(441,962)	223,753	223,753	-
10111	Mission Annex CC	53,053	2,680	50,373	53,053	1,679	51,374
2063	Mission CC	73,348	-	73,348	73,348	-	73,348
10095	Mission Ed Ctr ES	187,012	5,861	181,151	187,012	57,957	129,055
0146	Mission HS	2,342,503	3,272,655	(930,152)	2,342,503	2,342,503	-
1721	Monroe ES	216,071	199,162	16,909	216,071	216,071	-
1542	New Traditions ES	179,821	103,662	76,159	179,821	88,904	90,917
1614	Newcomer HS	245,127	189,492	55,635	245,127	189,818	55,309
10112	Noriega CC	103,789	5,374	98,415	103,789	2,378	101,411
1591	Parkside (Feinststein) ES NSB	11,000,000	248,158	10,751,842	11,000,000	1,118,194	9,881,806
1703	Paul Revere & Annex ES	201,541	24,058	177,483	201,541	167,038	34,503
1615	P&S Burton HS	1,719,612	444,853	1,274,759	1,719,612	1,719,612	-
1723	Potrero/E. Maxwell MS	392,957	214,718	178,239	392,957	392,957	-
10147	Presidio MS	2,830,401	2,297,726	532,675	2,830,401	2,471,655	358,746
1616	Raoul Wallenberg HS	757,301	510,489	246,812	757,301	662,958	94,343
PA_23	Raphael Weill CC	70,193	-	70,193	70,193	-	70,193
10096	Redding ES	208,806	6,204	202,602	208,806	7,148	201,658
10097	Robert Louis Stevenson ES	230,599	6,747	223,852	230,599	4,063	226,536
1618	Rooftop MS	137,528	264,525	(126,997)	137,528	137,528	-
1617	Rooftop ES	234,355	201,637	32,718	234,355	234,355	-
1713	Roosevelt MS	392,954	45,476	347,478	392,954	392,954	-
1626	Rosa Parks ES	303,247	276,361	26,886	303,247	303,247	-
1627	S.F. Community Center ES	160,571	88,120	72,451	160,571	130,211	30,360

San Francisco Unified School District
FUNDING SUMMARY

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Project Number	School	Expenditures (1) Budget	Expenditures Actual	Expenditures Balance	Revenue (1) Budget	Revenue (2) Receved	Revenue (3) Balance
10113	San Miguel CC	107,615	25,539	82,076	107,615	1,429	106,186
0220	**Sanchez ES**	1,716,442	1,499,554	216,888	1,716,442	1,504,236	212,206
10114	Sarah B. Cooper CC	251,876	4,996	246,880	251,876	176,142	75,734
10228	School Supplies Warehouse	410,000	334,830	75,170	410,000	410,000	-
1740	Stoffer Warehouse	-	2,564,642	(2,564,642)	-	-	-
1592	**Sheridan ES NSB**	5,105,732	5,287,769	(182,037)	5,105,732	5,105,732	-
10098	Sherman ES	289,622	21,074	268,548	289,622	16,157	273,465
1724	SOTA at Louise Lombard	853,608	716,535	137,073	853,608	451,325	402,283
10099	Spring Valley ES	204,545	15,126	189,419	204,545	3,717	200,828
1628	Starr King ES	252,394	114,890	137,504	252,394	252,394	-
1727	Sunnysde ES	242,194	120,138	122,056	242,194	242,194	-
3047	Sunset ES	175,883	4,936	170,947	175,883	175,883	-
10100	Sutro ES	223,335	6,634	216,701	223,335	2,966	220,369
1629	TAPP Sunshine HS	150,209	166,040	(15,831)	150,209	150,209	-
10115	T. Mahler CC	71,868	2,676	69,192	71,868	1,954	69,914
1632	Thurgood Marshall HS	1,027,109	307,914	719,195	1,027,109	1,027,109	-
10101	Treasure Island ES	368,629	9,642	358,987	368,629	4,896	363,733
10116	Tule Elk Park @ Y. Buena CC	75,818	20,613	55,205	75,818	2,507	73,311
1605	Twenty First Century K-8	254,499	142,988	111,511	254,499	254,499	-
10102	Ulloa ES	269,782	5,147	264,635	269,782	3,583	266,199
pa42	**Visitacion Valley ES**	870,284	579,495	290,789	870,284	870,284	-
1631	West Portal ES	1,072,525	157,535	914,990	1,072,525	1,041,263	31,262
0221	**William R. De Avila ES**	1,353,950	1,113,700	240,250	1,353,950	1,222,634	131,316
10103	Yick Wo ES	241,975	4,982	236,993	241,975	3,214	238,761
3056/10004	Yoey at Bessie Smith	1,000,000	62,338	937,662	1,000,000	1,000,000	-
10173	Various Proj. Oper. Exp/Consult.**	-	19,620,030	(19,620,030)			-

San Francisco Unified School District

FUNDING SUMMARY

Proposition A Financial Report

Project Number	School	Expenditures (1) Budget	Expenditures Actual	Expenditures Balance	Revenue (1) Budget	Revenue (2) Receved	Revenue (3) Balance
1461	Various Proj/Luster CM***	-	907,897	(907,897)			-
1637	Various Proj/URS CM****	-	260,292	(260,292)			-
0256	Various Proj/Fire Alarm	-	42,738	(42,738)			-
10C73	Various Proj/Lopez CM	-	57,024	(57,024)			-
10117	Various Proj/Fire Alarm	-	95,120	(95,120)			-
10174	Various Proj/Fire & Life Safety	-	2,096,657	(2,096,657)			-
3007	Various Proj/Contracts Compliance	-	161,715	(161,715)			-
							-
							-
							-
	Totals:	139,241,099	122,653,336	16,587,763	139,241,099	109,761,099	29,480,000

Notes:

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1. Revenue "Budget" column reflects following fund receipts: $60,520,000 - first '97 Prop 'A' Bond release received in 1999; $29,480,000 - second release of '97 Prop 'A' Bond funds; $49,241,099 funds for State Leroy Green projects.
2. Revenue "Received" column reflects following fund sources: $60,520,000 - first release of '97 Prop 'A' Bond; $49,241,099 funds for State Leroy Greene project.

2a. The District spent $12,892,237 from other SFUSD Fund sources (Fund 01, 21,25, & 36) - See note below for Fund description.

3. Revenue "Balance" column reflects fund sources as follows: "Budget" - " Received" funds = Outstanding balance from 2nd Prop 'A' Bond release..
4. Expenditures "Budget" reflect projects that were budgets from the Prop 'A' Bond funds (release 1 & 2) and State Leroy Green
5. Expenditures "Actual" reflect the amount spent on each project (Including cost not anticipated e.g. fees for CM firms to perform the work; and Projects that required completion to maintain State Funds (e.g., John, O' Connell, Mission HS).

** Includes fees not billed directly to specific projects

***School sites Include A.P. Giannini, H. Hoover MS, Rosa Parks S, Ida B Wells HA, Marina MS., etc.

****School Sites Include Buena Vista ES, Alvarado ES, Downtown HS, James Lick MS. Marshall ES, etc.

Fund Description: Fund 01 is the General Fund for the School District; Fund 21 is divided into two sub sets and they are: 21-36, Mello Roos tax and ; 21-38 Bond funds (Prop A.). Fund 25 Is Developer fees [used for improvements to the physical building; Fund 36 is the State, Leroy Green fund.

Item 6 - File 03-1886

Department: Treasure Island Development Authority (TIDA)

Item: Resolution approving and authorizing the Treasure Island Development Authority to enter in the 16th modification to the Cooperative Agreement with the U.S. Navy in order to extend the Cooperative Agreement to the Federal Fiscal Year ending September 30, 2004 (FY 2003-2004).

Description: On May 2, 1997, the Board of Supervisors approved a resolution (Resolution No. 380-97), authorizing the Mayor's Treasure Island Project Office to establish a nonprofit public benefit corporation known as the Treasure Island Development Authority (TIDA) to act as a single entity focused on the planning, redevelopment, reconstruction, rehabilitation, reuse and conversion of Treasure Island and Yerba Buena Island for the public interest, convenience, welfare and common benefit of the inhabitants of the City. On September 30, 1997, the U.S. Navy closed Treasure Island[1] as an active Naval Base. The California Legislature subsequently approved the Treasure Island Conversion Act of 1997, which designated the Treasure Island Development Authority as a trustee of the State Tidelands Trust and as the Redevelopment Agency for Treasure Island.

On October 1, 1997, concurrent with the operational closure of the Naval Base, the City entered into a Cooperative Agreement with the Navy, with approval from the Board of Supervisors (File 244-97-4), in which the City agreed to assume responsibility for various services on Treasure Island until the property is conveyed by the Navy to the City. These various services include: (1) operation and maintenance for the water, waste water, storm water, electric and gas utility systems on the Naval Base, (2) security, public health and safety services, (3) grounds and street maintenance

[1] All references to Treasure Island in the proposed Cooperative Agreement refer to the entire former Treasure Island Naval Station, which included the adjoining Yerba Buena Island.

and repair, and (4) property management and caretaker services. The Cooperative Agreement was subsequently modified in 1998, with the approval of the Board of Supervisors (File 98-1751), to make the TIDA rather than the City, the party to the Cooperative Agreement with the Navy.

The proposed resolution would approve an extension to the existing Cooperative Agreement between the Navy and the Treasure Island Development Authority for the one-year period from October 1, 2003 to September 30, 2004. The proposed resolution represents the 16th modification to the Cooperative Agreement (see Comment No. 1). The proposed extended Cooperative Agreement provides for no Navy reimbursement to TIDA for providing the above services at Treasure Island.

Comments:

1. Although the proposed resolution is the 16th modification to the Cooperative Agreement, according to Mr. Stephen Proud of the Treasure Island Development Authority, the proposed resolution represents the 7th time that the Department has requested the Board of Supervisors approval to extend the Cooperative Agreement. As shown in the table below, and as shown in Attachment II, under five previous extensions to the Cooperative Agreement, the Navy has reimbursed the City and TIDA a total of $12,848,214.

Year of Cooperative Agreement (based on Federal Fiscal Year October 1 through September 30)		Amount of Reimbursement by the Navy to the City
FY 1997-1998		$6,058,214
FY 1998-1999		4,000,000
FY 1999-2000		2,500,000
FY 2000-2001		145,000
FY 2001-2002		145,000
Subtotal		$12,848,214
FY 2002-2003		0
FY 2003-2004	(Subject of this request)	0
Total		$12,848,214

However, as shown in the above table, the Navy makes no reimbursements to TIDA for Federal Fiscal Years 2002-2003 and 2003-2004.

2. Mr. Proud states that the reason that the extension of the Cooperative Agreement between the Navy and TIDA is needed, even though the Navy is no longer making reimbursements to TIDA for TIDA's costs of providing the aforementioned services, is because the Agreement continues to provide the legal structure for the City and TIDA to operate and maintain the Base until the Navy conveys the property to the City. Mr. Proud advises that the Navy still owns the Base and the subject Cooperative Agreement provides both the authorization and mechanism for TIDA to operate on the Navy's land.

3. Mr. Proud advises that there have been 15 previous modifications to the Cooperative Agreement because, in addition to the above modifications to extend the Cooperative Agreement, there have been other technical modifications made to the Cooperative Agreement which did not require approval of the Board of Supervisors. According to Mr. Proud, all such technical modifications involved remittance of installment reimbursement payments by the Navy to the Treasure Island Development Authority during prior fiscal years.

4. Mr. Proud advises that under the original 1997 Cooperative Agreement, the Navy did not provide the Treasure Island Development Authority with a written schedule of annual reimbursement amounts, but rather the amounts were negotiated on an annual basis as the Cooperative Agreement was renewed. Mr. Proud advises that in executing the Cooperative Agreement with the Navy, the Treasure Island Development Authority understood that the Navy would be decreasing its annual reimbursement to TIDA (1) as the City moved closer to acquiring full

ownership of Treasure Island, which is now expected to occur in the 2004 calendar year and (2) as the Treasure Island Development Authority leased additional areas of the former Naval Base from the Navy for revenue generating purposes. In fact, Mr. Proud advises that the Treasure Island Development Authority was advised by the Navy that the Navy reimbursements would be reduced on an annual basis and eliminated in Federal FY 2002-2003, based on the Navy's determination that the Treasure Island Development Authority was earning sufficient revenues to pay for all of the costs of providing services at Treasure Island. According to Mr. Proud, in past years the Treasure Island Development Authority has offset the annual reductions in monies reimbursed by the Navy with increased revenues derived from rentals on Treasure Island.

Attachment I, provided by Ms. Eila Arbuckle of the Treasure Island Development Authority, identifies the total revenues received by TIDA by type of revenue from Federal FY 1997-1998 through Federal FY 2002-2003, including the revenues previously received by TIDA through the Cooperative Agreement (CA) reimbursements from the Navy. TIDA's earned revenues include housing rents, permit fees, marina rents and commercial rents on Treasure Island and Yerba Buena Island. As shown in Attachment I, the revenues received through the Cooperative Agreement have declined each fiscal year, from $6,058,214 in FY 1997-1998 to $145,000 in FY 2001-2002. As noted above, both the extension in FY 2002-2003 and the proposed extension for FY 2003-2004 would provide no reimbursements from the Navy to TIDA. At the same time, TIDA's earned revenues have increased each fiscal year, from $1,353,046 in FY 1997-1998 to $9,308,417 in FY 2002-2003.

5. According to Mr. Proud, it is the Navy's policy to fund only those services which the Navy itself would perform on a closed Naval Base. Mr. Proud advises that the amount of the above annual

reimbursements, provided by the Navy to the Treasure Island Development Authority, was negotiated by the Navy and TIDA, based on the estimated costs for the Navy to provide such services and not based on the City's actual costs to provide such services. Attachment II provided by Ms. Arbuckle identifies the total Cooperative Agreement reimbursements and the Navy's negotiated allocation of these reimbursements to offset TIDA costs to provide such services from Federal FY 1997-1998 through Federal FY 2003-2004. Ms. Arbuckle advises that, as of the writing of this report, TIDA cannot provide the actual costs that TIDA incurred to provide these services, as compared to the reimbursements provided by the Navy. Therefore the Budget Analyst cannot determine to what degree the funds from the Navy reimbursed the City's actual costs to provide such services.

6. TIDA's FY 2003-2004 budget, as previously approved by the Board of Supervisors, totals $11,608,581. Attachment III, provided by Ms. Arbuckle contains the FY 2003-2004 budget and identifies the revenue sources and expenditures for TIDA's FY 2003-2004 budget. As shown in Attachment III, TIDA's largest revenue source is rent from housing, including $7,500,000 from Treasure Island and $900,000 from Yerba Buena Island. TIDA's largest area of expenditures are for services provided by City Departments totaling $9,014,932, including Fire Department services for $5,054,001.

7. The proposed resolution would extend the existing Cooperative Agreement between the Navy and the Treasure Island Development Authority for the one-year period from October 1, 2003 through September 30, 2004 (Federal Fiscal Year 2003-2004). Mr. Proud advises that the Treasure Island Development Authority did not obtain approval from the Board of Supervisors to extend the subject Agreement prior to October 1, 2003, the effective date of the proposed extension, because the Navy

did not provide the information related to the extension to the agreement prior to the expiration date. According to Mr. Proud, the first opportunity for the TIDA Board to consider this matter was at their regularly scheduled meeting in October of 2003 and subsequent to their approval, the subject item was forwarded to the Board of Supervisors for approval. Therefore, the proposed resolution should be amended to provided for retroactivity.

Recommendations:

1. Amend the proposed resolution to provide for retroactivity to October 1, 2003, in accordance with Comment No. 7.

2. Approve the proposed resolution, as amended.

Harvey M. Rose

cc: Supervisor Peskin
Supervisor Sandoval
Supervisor McGoldrick
Clerk of the Board
Controller
Ben Rosenfield
Ted Lakey

ATTACHMENT 1

FEDERAL FISCAL YEAR	TOTAL REVENUES	EARNED REVENUES	COOPERATIVE AGREEMENT REVENUES
FY 1998 10/01/97-09/30/98	7,411,260	1,353,046	6,058,214
FY 1999 10/01/98-09/30/99	6,511,009	2,511,009	4,000,000
FY 2000 10/01/99-09/30/00	4,614,540	2,114,540	2,500,000
FY 2001 10/01/00-09/30/01	7,118,073	6,973,073	145,000
FY 2002 10/01/01-09/30/02	9,453,417	9,308,417	145,000

COOPERATIVE AGREEMENT BUDGETS
March 1997 through September 2003

Function	Total	10-01-02 through 09-30-03	10-01-01 through 09-30-02	10-01-00 through 09-30-01	10-01-99 through 09-30-00	10-01-98 through 09-30-99	10-01-97 through 09-30-98
Public Safety	$3,325,000	0	0	0	$325,000	$1,500,000	$1,500,000
Telephone Cable Maintenance	100,000	0	0	0	50,000	50,000	0
Grounds Maintenance	1,468,000	0	$55,000	$55,000	250,000	500,000	608,000
Building/Street Maintenance	3,485,000	0	$25,000	$25,000	1,213,000	1,200,000	992,000
CA/Personal Property Mgt.	850,000	0	0	0	500,000	250,000	100,000
Utility Services/Maintenance*	3,585,214	0	$65,000	65,000	162,000	500,000	2,858,214
TOTAL	**$12,848,214**	**0**	**$145,000**	**$145,000**	**$2,500,000**	**$4,000,000**	**$6,058,214**

FY 2003-2004
Treasure Island Development Authority

	FY04 BUDGET CURRENT
TOTAL REVENUES	11,658,581.00
TI Administration (210009)	1,000.00
TI Special Events Revenues (210016)	378,000.00
YBI Special Events Revenues (210017)	0.00
TI Commercial Revenues (210018)	672,000.00
TI Film Permit Revenues (210019)	40,000.00
YBI Film Permit/ Cellsite Revenues (210020)	110,000.00
Marina Revenues (210021)	15,000.00
TI Housing Revenues (210022)	7,500,000.00
YBI Housing Revenues (210023)	900,000.00
REVENUES BROUGHT FORWARD	2,042,581.00
REVENUES LESS EXPENSES	50,000.00
TOTAL EXPENSES	11,608,581.00
TOTAL PERSONNEL	1,097,896.00
TOTAL NON PERSONNEL/NON CITY DEPTS	3,295,753.00
TOTAL SERVICES CITY DEPTS	9,014,932.00
INTERDEPARTMENTAL RECOVERY	-1,800,000.00
TOTAL PERSONNEL	1,097,896.00
Salaries	939,363.00
Fringe	158,533.00
Attrition	0.00
TOTAL NON PERSONNEL/NON CITY DEPTS	3,295,753.00
021 TRAVEL	10,000.00
022 TRAINING & CONFERENCES	8,000.00
023 FIELD EXPENSES	500.00
024 MEMBERSHIPS	1,100.00
025 SPECIAL EVENTS/PROMOTION	18,153.00
027 PROF/SPECIALIZED SERVICES /1/	2,338,000.00
028 BLDG. MAINTENANCE SERVICES	154,000.00
029 EQUIPMENT MAINTENANCE	1,000.00
03100 EQUIPMENT RENTALS	420,000.00
03500 CURRENT EXPENSES	15,000.00
040 OFFICE MATERIALS & SUPPLIES	5,000.00
05200 PYMTS TO OTHER GOVT AG.	325,000.00
05300 JUDGMENTS & CLAIMS	0.00
06000 EQUIPMENT PURCHASES	0.00
TOTAL SERVICES CITY DEPARTMENTS	9,014,932.00
081BI Bldg Inspection	0.00
081CB Risk Management	75,000.00
081ct City Attorney	411,320.00

081C5 DTIS	34,486.00
081ED	7,538.00
081ET DTIS	44,819.00
081FD Fire	5,054,001.00
081H2 Training	1,500.00
081MY	45,721.00
081PA Central Shops	3,000.00
081PE Vehicle purchase	17,479.00
081PF Central Shops Fuel	2,000.00
081PK	100,000.00
081PR reproduction	4,568.00
081RE	0.00
081PS POLICE	315,000.00
081UH	1,066,250.00
DPW	1,832,250.00
081WB Bldg Repair	1,656,250.00
081WE Engeering	100,000.00
081WH Waste Disposal	26,000.00
081WM construction management	50,000.00
08699 Interdepartmental Recovery	-1,800,000.00
Fire: AEG 1G-AGF-AAA 315018	-1,800,000.00